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New Dimensions of Monetary Policy*

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CHANGES in our financial operations have been about as dramatic since World War I as the changes in methods of warfare. When the Aldrich Commission proposed the Federal Reserve System, the federal budget was about $750 million. Today it is more than 100 times as big, at $80 billion, with cash expenditures even higher. One thing was the same — defense expenditures, then some $300 million, approached one half of the budget. Today the Defense Department spends three times this much in a week. When the Federal Reserve System was established in 1913 we were just beginning to experiment with an income tax. The income tax liability incurred in one week now would have run the 1913 government all year. Since that time our population has increased more than 70 percent, from nearly 100 million to over 170 million. Gross national product in today's prices was well below $100 billion; now it creeps closer and closer to $500 billion.

Demand deposits and currency totaled about $12 billion. Now the total is over $130 billion. Banks have more legal reserves now than they had deposits in 1913. The federal debt was negligible; now it is over $280 billion. Total private and public debt has increased more than tenfold.

These are all changes of which we are fairly well aware, if we ever stop to think of them. We often do not, because change has become so commonplace we tend to overlook it. But there are many more changes that have taken place in the financial structure and in our demands upon it.

I.

Monetary policy no longer means what the term once meant, nor does it mean the same thing now to all people. We expect a great deal of monetary policy and of the Federal Reserve System in particular. In 1913 monetary policy was generally thought of as providing an elastic currency to replace the old national bank notes and as providing the reserves for the correct amount of bank credit as measured by some sort of commercial loan principle. In the 1930's the older views of the importance of elasticity, eligibility, and liquidity gave way to more emphasis upon providing enough money without

*This paper was presented at the University of Illinois, January 8, 1959.

so much regard to the assets underlying it. Today the Reserve System has to keep an eye on various pairs of dilemmas. It is inextricably involved with debt management but this complicates its efforts toward stabilizing prices. It is supposed to stabilize the price level while fostering full employment. It is supposed to encourage economic growth. In this country we have never been much concerned with protecting the gold stock and exchange rates, except in 1931-32, but in view of recent gold movements that may become an important factor, too.

While we have been thrusting more duties onto the Reserve System, the environment in which it operates its traditional instruments of credit control has been getting more complicated. Some of these complications stem from inconsistencies of various kinds in governmental and public approaches to a variety of problems.

One of the main differences between the financial structure of 1913 and that of today is the tremendous decline in the relative importance of the commercial banks, or in reverse, the very rapid growth of financial intermediaries, such as insurance companies, savings and loan associations, investment and pension funds, credit unions, and to a lesser extent, savings banks. Another is the creation of secondary sources of funds, such as the Federal Home Loan Banks, the Federal National Mortgage Association, and other government agencies. Let us consider first some of the inconsistencies brought about by these institutions.

Before the 1930's banks were established pretty much on the principle of free banking. As a result there were clearly too many weak banks and since the reforms of the 1930's a new bank charter is about as hard to get as a taxicab license in New York City. Although banks are not classed as public utilities, a charter, whether federal or state, is in effect a certificate of necessity. On the other hand, beginning with the 1930's some other financial institutions have been promoted by the federal government. There are now some 6,000 savings and loan associations with approximately $55 billion of assets. About a third of these have been chartered since 1933, but there are fewer commercial banks than there were 25 years ago. Since 1933 abou 16,000 credit unions have been formed

Consider also some problems of reg ulation. Since the banking acts of th 1930's many inconsistencies in the reg ulation of federal and state banks hav been removed. They still exist, how ever, between banks and other institu tions, as witness the allowable rea estate loans for different institution In view of the growing similarities an competition between different financia institutions, perhaps they should mee the same tests in selecting assets. A will be pointed out a little later, sav ings and loan shares now serve some c the functions of money. In New Yor State, mutual savings banks can pa depositors' bills for them, thus makin savings deposits practically a means c payment.

It has always been recognized th there may be inconsistencies betwee supervisory policy and monetary polic During prosperity monetary policy ma be restrictive but examiners may a

prove marginal assets because of good business conditions. During recession monetary policy may be expansionary but examiners frown on marginal loans because of uncertain business conditions.

Before leaving the problem of inconsistent development of different kinds of institutions, we should look at secondary sources of funds, such as the Federal Home Loan Banks, the Federal National Mortgage Association, and the Federal Intermediate Credit Banks. Here, several questions arise, especially in the field of monetary policy. A rather obvious example took place a few years ago when the Reserve System was leaning against the boom with tighter money but the FNMA was adding hundreds of millions to the mortgage market. Sometimes a government agency lends at low rates while the System is raising rates generally. The System can take money out in one place and some lending agency can pour Treasury funds back in another. The banking system can control the creation of money but these other institutions can stimulate its use.

Changes in the last twenty years in both the assets and the liabilities of some lending institutions, or intermediaries, raise some very interesting questions for monetary policy. Consider, for example, the evolution of mortgage lending. At one time the public image of the lender was the man with the big black mustache who foreclosed on the farm unless he could marry the farmer's daughter. Getting the farmer's daughter was not the only risk in this type of lending. There was real risk of monetary loss. Later on building and loan associations began to take over a good deal of real estate lending. Mortgages collapsed so severely during the Great Depression that federal help was needed from HOLC, and the amortized loan was widely adopted. Savings and loan associations were promoted to start a flow of funds to the building industry. Mortgage insurance came along, so that savings and loan shares were shares of ownership of insured assets. Then, to complete the circuit, the shares themselves became insured, like bank deposits.

How does all this change the old structure of mortgage lending? Obviously, the shares of a savings and loan association have become a highly liquid asset instead of a risk asset, and are therefore used by many people as liquid holdings in place of cash balances. In view of the present widespread holdings of Treasury issues by corporations, and redeemable savings bonds, insured savings deposits and savings and loan shares by the public, perhaps the whole theory of liquidity preference and the demand for money needs rethinking. Why hold non-interest-bearing cash when a savings bond can be cashed at will?

The existence of the newly important intermediaries, therefore, presents a fundamental problem for monetary theory. That is, whether the existence

of many new kinds of liquid assets changes the determinants of the demand for money. There are supposedly three motives, as Keynes called them, for holding cash balances — for transactions, for precaution, and for speculation. If other things now substitute for the liquidity needs in the precautionary and speculative motives, the demand for money may either be smaller or more subject to fluctuation than before. In either case, the effectiveness of central bank control over the supply of money may be hampered. While there are increased supplies of money substitutes, some of the needs for liquidity have become less. Many households are covered by unemployment compensation and by insurance against medical and hospital expenses, accidents, and liability; some have guaranteed annual wages.

Under the circumstances, a rise in the velocity of circulation may offset to some extent a tight money policy. This is what happened in 1955-56. It is fairly clear that an increased ability and willingness on the part of the public to hold noncash liquid assets allowed a shift of deposits to take place from those holding them for liquidity — and therefore idle — to business firms wanting them for transactions — or spending. This apparently took place not only through the sale of secondary reserve assets by the banks, which replaced them with loans, but also through corporation sales of liquid assets to others. Total bank assets and deposits were held down by reserve policy but money turnover was higher. The extent to which this happened and what the results may have been could well present some interesting questions to be investigated.

In June of 1955 when the Reserve Banks were following a restrictive policy, commercial banks held $55½ billion of federal securities. During the next year their holdings dropped by $6 billion while their loans increased by $4 billion. During the next year, to June, 1957, they dropped another $1 billion. Then, reflecting the recession in six months they rose $3 billion; in the next six months, $6 billion.

Corporate holdings of government securities likewise fell between 1955 and mid-1957, by some $8 billion. These holdings increased slightly during the recession but since last spring have fallen even further.

Banks, of course, have traditionally used their government security holdings to adjust their reserve and liquidity positions. The difference in the present situation is the large holdings of bills by nonbank institutions and business corporations. Last June, individuals, businesses, and other miscellaneous investors had four times as many Treasury bills as had the commercial banks. This represents a tremendous reservoir of liquidity when these holders want to convert to money. As bills mature every week the Treasury must replace them or pay off the holders and if necessar

obtain the funds from the commercial or reserve banks.

Whether there are changes in holdings or not, some of these securities must be replacing cash balances for liquidity purposes. Consequently, whatever the supply of currency and demand deposits may be, it can turn over more rapidly in financing transactions. The increase from June of 1955 to mid-1957 of $12 billion in Treasury obligations due within one year held by nonfinancial investors must have released some spendable funds into more active balances. This rise in turnover was the equivalent of an increase of as much as 8 percent or 9 percent in the supply of money, in the face of a restrictive monetary policy taking the rediscount rate from 1¾ percent to 3 percent.

II.

Let us turn now to a brief consideration of the cost-push inflation problem and its implications for monetary policy.

The idea that wages could rise fast enough to outstrip productivity or that monopolistic industry might arbitrarily raise profit margins, both enough to push up prices without a demand-pull, is a rather new one too. Actually, there seem to be strong short-run factors making a rise in the price level unlikely. Merely to list them, the more important are the existence of excess capacity as a result of boom-time investment, the persistence of some 6 percent unemployed, the increasing importance of foreign competition, the availability and relative cheapness of most raw materials and farm products, and not the least, the Federal Reserve System itself.

The real problem, however, is not what the price level will do in 1959, but whether the 1959-69 decade will repeat the 1948-58 decade. Unfortunately, there are many pessimistic reasons for anticipating that it will. Apparently, many people have come to this conclusion; otherwise it is difficult to rationalize the soaring Dow-Jones average and the difficulties of the Treasury in rolling over its maturing debt.

There has been much evidence during the recent recession leading to this conclusion. We used to learn in economics textbooks that there was a business cycle of ups and downs of production, employment, prices, and wages. All four went up and down more or less together. Now, production and employment still go up and down — fortunately not so much as they used to — but prices and wages refuse to tag along. This is not, of course, to suggest that it would be preferable for wages to fall as they used to do, but rather that their rigidity has helped rationalize the expectation of long-run inflation.

The contrast is clear in the severe recessions of 1920-21 and 1937-38. In the earlier one average hourly earnings declined 22 percent; in the later one, only 1 percent. In the first two postwar recessions, those of 1948-49 and 1953-54, hourly earnings remained vir-

tually unchanged and in the 1957-58 recession they actually rose. In every one of the 21 major manufacturing industries, wages rose during the year ended last fall, on the average by about 3 percent.

These facts, plus some related ones, naturally lead us to wonder whether prices are not being pushed up as well as being pulled up by expanding spending. Wage rates are now commonly tied to price increases by escalator clauses. They automatically rise when consumer prices do. Although many workers are not covered by union wage agreements, the effects of wage changes are soon spread to most labor markets by competition. Thus, the question is, If wages are bid up during prosperity and do not fall during recession, does not the price level have to start on a higher cost basis with each recovery? Can productivity rise rapidly enough, in the long run, to prevent this from happening?

The story on prices is essentially the same. During the cycle ending in 1953-54, wholesale prices rose 13 percent on the upswing and fell less than 1 percent on the downswing. In the cycle just ended these prices rose 7 percent on the upswing and rose another 1 percent during the recession.

Consumer prices also rose 13 percent after the 1948 recession to 1953 and rose slightly during the 1953 recession. In the most recent cycle consumer prices rose 5 percent to 1957 and 2 percent more during the recession.

It follows, obviously, that if prices do not move both up and down, the trend is necessarily up. Two short-term movements in the same direction will not make a long-run movement in the other direction.

Why has monetary policy not put a stop to this persistent rise? I suggest two broad reasons: First, it could, but the measures needed would have to be so drastic as to be catastrophic. Ignoring political influences, the Reserve System could simply refuse to provide enough money to finance all the transactions at the higher price level. In spite of the obstacles presented by intermediaries' loans this could, in theory, be done. But the unemployment and liquidation of inventories would probably be severe and as politically impossible as they are undesirable anyway.

Secondly, monetary policy has failed since the war to provide a fairly stable price level because of the preponderance of factors working in the other direction. To some extent, this says the same thing, but there are many factors not mentioned here. Many government measures, if not intentions, are aimed at raising prices. Among these are various restrictions on imports, stockpiles, farm price support programs, fair trade laws, and others. Laws are seldom passed to lower the prices any group can charge; more often they are passed

to shelter a favored group from competition.

It is paradoxical that monetary policy is recognized as a necessary weapon to prevent inflation and yet when a contraction of credit begins to pinch, other efforts are made to relieve the pinch. In the last boom, monetary contraction was attacked for an alleged discriminatory effect on small business, on state and local borrowing for school construction, on consumer credit, and on housing construction. Yet if a restrictive policy is to have any effect it must restrict somewhere, and expanding Small Business Administration loans or granting federal aid to the states only narrows the remaining possibilities.

Always in the background are the extensive effects of the federal budget. Even a balanced budget at $80 billion is probably inflationary because it creates more expenditure than the taxation destroys, since saving as well as consumption is reduced. State and local governments also add a great deal to aggregate demand and have increased their debts considerably in the last decade.

The existence of the federal debt itself contributes to inflation because it is almost impossible to manage it so as to do otherwise. In recession the Treasury hesitates to refund with long-term bonds because they would compete with other investment opportunities. In recovery, the same reason prevails. In prosperity the Treasury hesitates to issue bonds at the relatively high rates that would be necessary.

There are inflationary aspects to the tax structure, too. No one seems really to know whether income tax rates reduce incentives and thus output on balance, or the extent to which corporate income taxes add to prices, if at all. But clearly here is an area where the CED's National Commission on Money and Credit can make a contribution to knowledge. One aspect bearing on the effectiveness of monetary policy which apparently needs more investigation is the effect of the 52 percent tax rate on interest costs and how this effect may have become absorbed or concealed in the money market. If a business firm has decided to float bonds at 4 percent and would change its mind if the interest cost were 1 percent higher, then monetary policy would have to raise bond yields to 6 percent in order to bring about this rise of 1 percent after taxes.

Without citing additional evidence, it is pretty clear that the preponderance of both recent history and government policies point to a continued state of inflation. This has led to a general, resigned acceptance on the part of the public of expectation of more erosion of the dollar. Nothing may tend to make this expectation come true more than the expectation itself. The more consumers, investors, unions, and busi-

nessmen anticipate inflation, the more they tend to speed up the creep to the proverbial gallop. Granting the many reasons why a flight from money is not imminent, if one ever does develop there will not be much that monetary policy alone can do about it.

What is needed is a reversal of the conviction that inflation is inevitable, and that requires a reversal of much of the evidence on which it is based. People must be convinced that the government will stabilize the price level and they will believe that when they see the steps being taken. This means doing what just about every reformer, commentator, and research group has been recommending for years.

On the Nature and Significance of Operations Research

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LIKE so many other new branches of science, operations research — or operations analysis, as it is sometimes called — is hard to define. It covers a great many different problems and methods, and if a professional operations analyst is asked what operations research really is, he will often be inclined to overemphasize that particular field in which he himself happens to be working, giving sometimes less than full credit to what has been done in other branches of operations research. Furthermore, some people seem to think of operations research as a mere cover for a pseudoscientific jargon, intended to impress innocent businessmen. Still others would assert that there is no such thing as operations research; the basic ideas may be sound enough, but they are by no means new and operations research is just a new propaganda slogan devised to advertise what used to be known as scientific management, or indeed any rational procedures for solving management problems in business.

As we shall see, there is some truth in this latter statement. However, it cannot be denied that when the slogans and the amateurishness are sorted out, there remains a core of genuine scientific achievements in *applying various mathematical and statistical methods to solving practical economic problems* in business and other large organizations. A vast number of new models and new methods have been devised during and since the war, and some of them have proved eminently useful when applied to such problems. The methods differ widely and so do the problems, but they nevertheless have certain elements in common which may well justify their being classified under the same heading, that of *operations research*.

I.

Let us first see if we can find a common denominator for the types of problems with which operations research is concerned. In rather abstract terms any problem of operations research can be described as a problem in *rational decision making*. This implies a situation where the management, or whoever is

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to make a decision, is facing a range of alternative feasible decisions and the problem is to determine which is the optimal decision — the optimal choice — that can be made under the given circumstances. This sounds at least vaguely familiar to an economist — and no wonder, because the existence of alternative possibilities from which an optimal choice is to be made is merely another way of saying that the problem has an economic aspect. Indeed, any problem in economics can be described as that of making an economically optimal choice from the possible alternatives — in other words, the science of economics is concerned with optimal utilization of resources. It is the possibility of *choice* that characterizes an economic problem as such. As an example, take the familiar problem of finding the least combination of certain factors of production for a given quantity of output. The factors, or inputs, are mutual substitutes, i.e., there exist a number of alternative input combinations which will yield the same quantity of the product, so we have a range of economic choice (whose geometric picture is an isoquant) and the problem is to find along the isoquant that particular combination which is optimal in the sense that it corresponds to minimum total cost. The whole economic theory of cost and production is based upon such considerations.

Thus, operations research is basically an economic discipline, though it is concerned with solving practical economic problems in business rather than with economic theory. Operations research is a normative branch of science in the sense that the ends are given and the means are the unknowns of the problem.

II.

Next let us look into the methods of operations research, still in broad and abstract terms. Operations research is a quantitative discipline, which means that the methods employed are mathematical, including of course statistical methods. Indeed, from a formal point of view, operations research can be classified as applied mathematics. The general procedure in operations research is, first, to formulate the concrete problem in terms of a mathematical model which takes all relevant factors into account and whose coefficients represent the technological, economic, and other data of the problem. Whenever risk, uncertainty, and the like come into the picture, the model will have to be formulated in stochastic terms. The feasible economically meaningful solutions to the mathematical model then represent the alternatives from which we have to select a solution — i.e., to made a decision — which is optimal with respect to some given criterion of optimality such as maximum profit, minimum total cost, and the like. Evidently this approach is closely related to that of econometrics, at least from a methodological point of view.

III.

All this has been rather abstract and general, and the reader is no doubt getting impatient to see some concrete practical examples. The nature of some of the more important types of problems which have been solved by opera-

tions research methods will be briefly indicated.

(a) One of the best known, and most useful, methods of operations research is that known as *linear programming,* a mathematical technique which has been extensively applied to problems of operations planning, in particular the planning of production. Mathematically, linear programming is the problem of finding a maximum (or a minimum) of a linear function, subject to linear side conditions and to the requirement that the variables shall be non-negative. A great many practical economic problems in industry and agriculture have turned out to fit into a model of this type.

The linear planning model may be illustrated by the following simplified example. A brewery has received an order for 100 gallons of 4 percent beer for prompt delivery. That particular type of beer is not kept in stock, so it has to be blended from such types as are available. There are four types in stock, and water may be added to dilute the mix if necessary; the respective alcoholic contents of these five possible ingredients and their prices are as follows.

Ingredient	Alcoholic content	Price per gallon
1 (water).....	...	....
2............	2.5%	$0.22
3............	3.7	0.25
4............	4.5	0.32
5............	5.8	0.45

The problem is to find a combination of ingredients which will minimize total cost of ingredients. Clearly each of the possible combinations can be thought of as representing a particular solution to the two linear equations

$$x_1 + x_2 + x_3 + x_4 + x_5 = 100$$
$$0.0x_1 + 2.5x_2 + 3.7x_3 + 4.5x_4 + 5.8x_5 = 400.$$

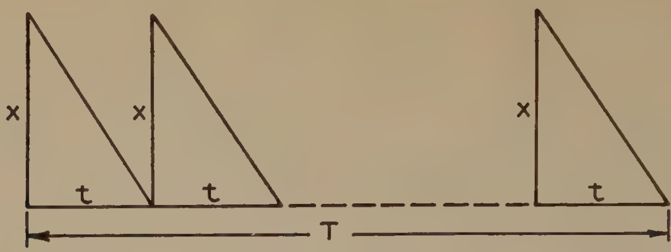
Solutions involving negative values for one or more x's are clearly meaningless, so that only non-negative solutions are to be considered, whereas zero values in the solution merely imply that not all of the ingredients are used for that particular blend. The optimal solution is that combination for which total cost of ingredients is as small as possible, i.e., the one for which the linear cost function

$$c = 0.00x_1 + 0.22x_2 + 0.25x_3 + 0.32x_4 + 0.45x_5$$

has a minimum.[1]

Another example is the so-called "transportation problem." Suppose that a company produces the same commodity in two factories, one in the East and one on the West Coast, and distributes the product from three warehouses scattered across the country. Total production per week, 600 tons, is to be distributed among the warehouses, the two factories producing 200 and 400 tons and the warehouses requiring 300, 100, and 200 tons per week respectively. The problem is to determine an optimal pattern of shipments, i.e., to determine the amounts to be shipped from each plant to each warehouse per week, with total cost of transportation to be as low as possible. Now let x_{ij} be the unknown quantity to

[1] The optimal solution turns out to be a combination of only two ingredients: $x_3 = 62.5$, $x_4 = 37.5$, all other x's equal to zero, $c = 27.63$.



be shipped from factory i to warehouse j. The corresponding freight rates c_{ij} — the costs of shipping one ton from factory to warehouse — are displayed in the following tabulation.

To / From		Warehouse 1	2	3
		c_{ij} (dollars per ton)		
Factory	1	3	2	1
	2	2	4	7

Then the problem is to find a minimum of the linear cost function

$$c = 3x_{11} + 2x_{12} + 1x_{13} + 2x_{21} + 4x_{22} + 7x_{23}$$

subject to the linear restrictions

$$\begin{array}{lllllll} x_{11}+x_{12}+x_{13} & & & & & & =200 \\ & & & x_{21}+x_{22}+x_{23} & & & =400 \\ x_{11} & & & +x_{21} & & & =300 \\ & x_{12} & & & +x_{22} & & =100 \\ & & x_{13} & & & +x_{23} & =200. \end{array}$$

This is a typical linear programming problem.

(b) Other methods of operations research are concerned with solving problems of *inventory planning and inventory control.* Some problems of optimal inventory planning have been successfully solved by linear programming, while others require more conventional mathematical tools; in many cases the model will, of course, have to be stochastic one because the demand fo the company's products is not know with certainty. A very simple invento model (which does not involve the us of statistical methods) is the following

A manufacturer supplies a give total number of units of his product t a customer during a given period o length T. Deliveries are made at constant rate, and delays in meetin the demand are not to be tolerated (se diagram). The problem is to d termine in how many productio runs the total numbers of uni desired should be made if tot cost of production and invento is to be minimized. (Clearly this equivalent to determining the time i terval between runs, t, or the optim lot size, x.) There are two types costs that are variable in respect to th situation: the total cost of carrying t inventory, and the total setup costs a sociated with the production runs. T former can be expressed as an increa ing function of x, whereas the latt will decrease for increasing x. T problem can be solved either analy cally — by setting the "marginal" co i.e., the derivative of total cost w

respect to x, equal to zero — or graphically as the minimum point on the total cost curve.[2]

(c) Still another branch of operations research is the so-called *queuing (or waiting-line) theory.* When a number of customers requiring a certain kind of service arrive at random points of time, we have the problem of balancing costs due to waiting (e.g., loss of business) against the increased costs of investment and operation by which waiting time can be reduced. Problems of this type are mathematically fairly complicated. Waiting-line models are, of course, particularly important to problems in traffic and communications (the theory of such models actually originated from research done by the mathematician Erlang of the Copenhagen Telephone Company fifty years ago), but since World War II the queuing models have been extended to cover related problems in many other fields.

(d) A somewhat related type of problem is that of *scheduling* a number of operations through the facilities performing the operations (e.g., machines) in such a way as to minimize idle (machine) time, a type of problem frequently met in production planning.

(e) Finally I might mention the *theory of games,* which is relevant to certain competitive situations where the behavior of each party affects the subsequent behavior of the opposite party.

[2] See, for example, C. W. Churchman, R. L. Ackoff, and E. L. Arnoff, *Introduction to Operations Research* (New York: John Wiley, 1957), pp. 202 ff.

IV.

These various models are widely different both with respect to the type of problem and with respect to the technique used in solving them. However, they are all problems of economic balance, problems in rational decision making. All of them require mathematical or statistical tools for their solution. Of course the problems have always been there, and they have been solved somehow. Many of them can be solved approximately by various common-sense methods, from inspired guesswork to systematic trial-and-error procedures. Any large organization has its own rules of thumb for dealing with problems of optimal decision making. It may be difficult to give precise explicit grounds for their application, let alone "proofs," but there is a general feeling that they will often lead to fairly acceptable results, based as they are on practical experience, special insight, intuition, and businessman's flair. Nevertheless, a great many such optimization problems, particularly those of large enterprises, are so complicated that it will pay to employ more scientific methods — and by scientific methods is meant formulating and solving the problem within the framework of a formal mathematical model. This was the basic idea behind a great part of

what in the interwar period was called scientific management, as it is the basic idea behind what we now call management science or operations research. The slogans may change, but the underlying basic idea is sound and fruitful. There is no doubt that production technology is far ahead of management economics, so far as application of scientific method is concerned. It is the job of operations research to eliminate this time lag, and it seems certain that we may expect great things to happen within this field in the years to come.

The Merged AFL-CIO Federation: Current Issues, Problems, and Prospects

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IN 1955 the CIO and the AFL consummated a merger agreement that marked the end of a twenty-year split in the American labor movement. At the time, this merger was hailed as an epochal event in the historical development of the labor movement — comparable in importance to the spectacular split in organized labor's ranks in 1935. After four years of operation as a united federation, where does it stand today? Is it stronger or weaker than it was before the merger in 1955? Are its prospects for continuance and success brighter or dimmer now than they were in 1955? What are the major issues and problems the united federation has met and how are they being resolved?

The Objectives of the 1955 Merger

The compelling incentives to unite the labor movement by merger of the AFL and CIO in 1955 were essentially political and economic in character. Politically, organized labor has been on the defensive ever since the end of World War II. The political and legislative reverses suffered by organized labor in the 1945-55 decade, particularly the growth of restrictive labor relations legislation at both the federal and state levels, had become a source of real alarm. The belief that labor's civil war had contributed directly and significantly to this loss of public favor had become fairly widespread by 1955, not only among the top labor leaders, but among rank-and-file union members as well. The political motivation for the merger in 1955, therefore, was basically to regain the political effectiveness of their organizations at the polls and in the legislative halls and to reduce public intervention in, and regulation of, their affairs.

The economic motivations for merger were at least equally compelling. The organized labor movement had failed to grow with the expanding labor force and the economy after 1945; in fact it was having great difficulty in even holding its own. Organizing the unorganized had become an extremely slow and painful process, in contrast with the easy successes of the late thirties and early forties. Unionizing activity had thus increasingly shifted from organizing the unorganized to squabbling

over the already organized. Raiding of one union's membership by another union had reached such a stage of open conflict that the whole future of "federation" in the labor movement appeared to be in jeopardy. Hardheaded business considerations thus seemed to dictate that something must be done to eliminate this internal strife and that the energy and resources of the labor movement should be concentrated on extending unionization further and rewinning public favor and acceptance. Not only were these jurisdictional conflicts dissipating the strength and energy of the labor movement, but the financial and numerical strength of the CIO had been seriously impaired by the expulsion of eleven affiliated national unions in 1950 for being Communist dominated. Economically, therefore, it appeared that a united labor movement would offer infinitely greater possibilities for achieving the twin goals of recruiting new members and re-establishing the political effectiveness of organized labor than a divided and competing one.

Somewhat secondary to these broad objectives, at least in 1955, were the expressed goals of eliminating graft, corruption, and racketeering, union discrimination against race or color, and Communist influence in the labor movement. The merger agreement incorporated fairly strong statements on these points. But no one in 1955 considered these objectives as being on a par with the broader ones outlined above, nor could anyone in 1955 anticipate the transcendent importance that would come to be attached to some of these latter features after the merger was consummated.

The Experience Since 1955

The merger agreement of 1955 was no broad, pious statement on unity, or intent to merge, but a carefully drafted document with specific provisions for organic amalgamation. The translation of these provisions into action was carried forward with remarkable speed and in December, 1955, the new constitution was adopted by a joint convention of the AFL and the CIO, and the merger was formally consummated. Under the heading of "Objects and Principles," the new constitution states that the federation will seek to (1) promote the organization of the unorganized; (2) protect the labor movement from any and all corrupt influence; (3) encourage the merger of unions with duplicate jurisdictions; and (4) promote the welfare of all workers by legislation.[1] This section, however, goes on to state that these goals will be pursued with "due regard for the autonomy, integrity, and jurisdiction" of the affiliated unions, and furthermore that each affiliated union "shall respect the established collective bargaining relationships" of every other affiliate, and "shall refrain" from raiding. Finally this section states that "both craft and industrial unions are appropriate, equal and necessary as methods of union organization." It was obvious that a serious attempt to carry out those stated objectives of the merged federation, and at the same time to adhere strictly to the principles of union autonomy, ex-

[1] AFL-CIO Constitution, Article II.

clusive jurisdiction, and equal promotion of craft and industrial unionism, would create internal problems that might well become irreconcilable.

Under the new constitution, the authority and powers of the merged federation are not greatly dissimilar to those exercised by the AFL and CIO before the merger. Some additional detailing of powers and responsibilities of the Executive Council are provided for under the new constitution, however. For example, the council is authorized and directed to investigate any suspicion of corrupt practices on the part of any affiliated union, to "make recommendations or give directions" for its correction, and to suspend by two-thirds vote of the council the union concerned if conditions remain uncorrected. Expulsion from the federation and revocation of charter are thus the two primary devices through which discipline of nonconforming union affiliates would be effected. In the main, primary reliance was to be placed upon voluntary negotiation, compromise, and persuasion to bring affiliated unions into compliance with the announced goals of the federation.

The first test of voluntary negotiation as a method of carrying out provisions of the new constitution was met in the merger of state and local bodies. The constitution specified that such mergers were to be completed within two years — by December, 1957. At the expiration of this time limit, however, only 34 state and 169 local mergers had been completed. But under the strong leadership of President Meany and the Executive Council, the merger of state and local bodies proceeded at such a rapid rate in 1958 that by December 42 state and over 500 local central bodies had been merged. Only one compulsory merger was necessary (Michigan).

The new federation was launched, therefore, with an assumption of primary responsibility in four major areas of American trade union activities, two internal and two external. In assuming primary responsibility for the settlement of internal union problems of jurisdiction and corruption, the federation was tackling the knottiest problem in the entire field of American trade unionism. In assuming primary responsibility for organizing the unorganized and rewinning public favor and political support for broad protective, rather than restrictive, labor legislation, the federation was undertaking a program that seemed only slightly less formidable.

The Issue of Corruption

The problem of corruption in the internal affairs of some unions was attracting public attention at the very moment of birth of the AFL-CIO merger. Rumblings of misconduct and misuse of union health and welfare funds by certain union officials had precipitated a congressional investigation of these activities early in 1955. A Senate subcommittee, headed by Senator Douglas, was holding hearings and uncovering misconduct by union officials in this area even before the formal merger was completed in December of 1955.[2] Thus the new federation was

[2] See *Hearings Before the Subcommittee on Welfare Pension Plans Investigation of the Senate Committee on Labor and Public Welfare,* 84th Cong., 1st Sess. (1955), and *Welfare and Pension Plans Investigation,*

confronted with the necessity of dealing with this problem as its first order of business. It was recognized and accepted by the officers of the new federation that the successful pursuit of its broader and longer-range objectives might well depend upon its ability to meet this challenge of first setting its own house in order. Let it be said to the everlasting credit of the merged federation that it met this issue squarely.

The first action of the new federation in this area was to establish a Committee on Ethical Practices. This committee promptly drafted a Code of Ethical Practices, made up of six components, which was immediately adopted by the Executive Council and later by the AFL-CIO Convention in 1957. The six Codes of Ethical Practices carefully spelled out the nature and boundaries of proper conduct for affiliated unions and their officers in the area of internal union operations. Code II, for example, established standards of proper conduct in the operation of union health and welfare funds, such as avoidance of conflict of interest and the adoption of proper accounting procedures. Other codes contained equally specific provisions or standards for proper conduct in the areas of issuance of local charters by national union officials, qualifications for holding union offices, ensuring internal union democracy, and maintaining honest administration and accounting of union funds. Though none of the codes specifically mentions the use of the Fifth Amendment by union officials,[3] the Executive Council adopted a supplementary provision to the effect that a union official invoking the Fifth Amendment "for personal protection and to avoid scrutiny into alleged corruption on his part, has no right to hold office in his union." This statement was later interpreted to mean that a union official invoking the Fifth Amendment would be subject to federation investigation for the purpose of determining his fitness to continue in office.

Even before the further disclosures of the McClellan Committee on improper activities in the labor-management field, the federation had acted on four cases involving charges of violating the Ethical Practices Code. The four unions were the Distillery Workers, the Allied Industrial Workers, the Laundry Workers, and the Bakery and Confectionery Workers. The charges in all four cases were based on information brought out in the Senate committee hearings on welfare and pension practices, and involved mishandling of union funds by union officials. On recommendation of the Committee on Ethical Practices, the Executive Council ordered the Distillery Workers to clean house or face expulsion from the AFL-CIO. The Distillery Workers asked for probation to correct the malpractices and proceeded to elect new officers, accepting an AFL-CIO monitor of its affairs in the interim period. It has not as yet been removed from probationary

Senate Committee on Labor and Public Welfare, S. Report No. 1734, 84th Cong., 2nd Sess. (1956).

[3] Code III merely states than no person should be allowed to hold a union office who has been convicted of a crime, or who is "commonly known" to be a racketeer or crook.

status. Similar action was taken by the Executive Council against the Allied Industrial Workers, who promised immediate reform, were placed on probation, and had the probation lifted after some six months upon completing the necessary reforms.

In the third case, involving the Laundry Workers on charges of wholesale embezzlement of union welfare funds by union officials, the Ethical Practices Committee found the union officials guilty of serious misconduct. The Executive Council ordered reform or suspension. When the union failed to effect the required reforms, it was expelled by action of the AFL-CIO Convention in 1957. A new union was chartered by the AFL-CIO to organize the workers in this industry and at last report seems to be having some success in recruiting the former membership of the Laundry Workers International Union.[4]

In the fourth case, involving the Bakery and Confectionery Workers Union, the Ethical Practices Committee found the union officials guilty of equally serious misconduct in the diversion of union funds for private purposes. The Executive Council ordered immediate elimination of corrupt practices and removal of guilty union officials, and upon failure of the union to comply, the union was first suspended and then expelled by the AFL-CIO Convention in 1957. A new competing union was chartered to take over the membership of the expelled Bakery Workers and it also is reported to be making considerable progress in this undertaking.[5]

The next case of discipline by the AFL-CIO for corrupt practices involved the United Textile Workers of America, a former AFL affiliate. The charges in this case grew out of the McClellan Committee hearings. The same procedures were followed: investigation and condemnation by the Ethical Practices Committee, ultimatum by the Executive Council to clean house or get out of the federation, and suspension upon failure to comply with this directive. However, before the extreme penalty of expulsion was enforced, the union capitulated to the demands of the federation for reform, elected new officers in an AFL-CIO supervised secret ballot election, and was restored to good standing by the AFL-CIO 1957 Convention. It is still on probationary status, however.

Up to this point, discipline of affiliated unions for corrupt practices had not involved any of the larger organizations in the federation and hence expulsion or suspension had not involved any great loss of membership or financial strength. But the McClellan Committee's findings of the grossest malpractices by the giant Teamsters Union, together with the repeated invocation of the Fifth Amendment by Teamster officials, forced the federation to face its first really critical test. Expulsion of the Teamsters would mean not only the loss of nearly one and one-half million members and over a million dollars a

[4] The new organization claims about one-third of the LWIU's former membership. *AFL-CIO News,* August 30, 1958, p. 1.

[5] The new Bakery and Confectionery Workers Union claims some 70,000 of the expelled union's former 132,000 members. *AFL-CIO News,* August 30, 1958.

year in income, but might also seriously threaten the continuation of the merged labor federation itself. The leadership of the merged federation accepted the challenge. First President Dave Beck was expelled from the Executive Council. Following a recommendation of the Ethical Practices Committee, the Executive Council ordered the Teamsters to clean house or face suspension. The Teamsters convention defied the Executive Council ultimatum and elected James Hoffa president. The Executive Council suspended the Teamsters and the AFL-CIO Convention expelled them in December, 1957.

Jurisdictional Problems

Considerably less spectacular, but in many ways representing a more serious threat to the continuance of the merged federation, have been the jurisdictional problems resulting from the merger. Both trade, or work assignment, jurisdictional disputes and membership jurisdictional disputes have been the curse of the American labor movement. The refusal of craft unions to give up their exclusive jurisdictional claims in the mass production industries caused the split in the AFL and the formation of the CIO in 1935. The continuous threats of secession, actual secession, and expulsion of affiliated unions in both the AFL and CIO federations over jurisdictional claims plagued both branches of the labor movement for the next twenty years. The seriousness of this threat to the continued existence of both federations was a major factor in the drive for the merger itself in 1955, as already mentioned.

Both the AFL and the CIO hac adopted internal machinery for settlin jurisdictional disputes between thei affiliated unions before the merger — the AFL with its "Internal Dispute Plan" (1954), the CIO with its "Agree ment Governing Organizational Dis putes" (1951). Both plans called fo voluntary negotiation and final bindin arbitration whenever voluntary agree ment failed. Practically all the CIC affiliates and some 60 percent of AFI affiliates had agreed to abide by the respective plans. In addition to thei separate plans, the CIO and AFL ha signed a no-raiding compact in 195 which also provided for voluntary ne gotiations and final arbitration in set tling conflicting jurisdictional claim Some 76 old AFL unions and 28 ol CIO unions had signed this agreemer by the end of 1957.[6] This no-raidin agreement in effect provided for th abandonment of the principle of "e clusive jurisdiction" and substituted fo it the principle of "an established ba gaining relationship." In other word the union that first organized a grou of workers was to be given the superi claim to such work and/or workers subsequent jurisdictional conflicts. Th provision was carried over and inco porated in the new AFL-CIO constit tion in 1955.

The new constitution furthermo provided for the settlement of confli ing and duplicating jurisdictions authorizing the president and the E ecutive Council "to seek to elimina such conflicts and duplications throu

[6] *Proceedings of the AFL-CIO Conve tion, 1957*, p. 47.

the process of voluntary agreement or voluntary merger between the affiliates involved." The Executive Council is authorized to hold hearings and make recommendations for final settlement of such disputes between signatories of the no-raiding agreement, subject only to an appeal to the biennial AFL-CIO convention. For nonsignatories, the dispute is to be referred to an arbitrator who makes recommendations for settlement but renders no binding award. Appeals from these arbitrator recommendations may be taken to the biennial convention for final adjudication.

There seems to be substantial evidence that these internal agreements have been very useful in settling jurisdictional disputes between affiliated unions. For example, the Executive Council reported to the AFL-CIO Convention in 1957 that 135 jurisdictional cases had been settled under the no-raiding agreement, and over 300 cases settled under the new AFL-CIO constitutional provisions.[7] The council furthermore reported that arbitration was necessary in only 35 cases, the remainder being settled by voluntary negotiation and agreement. The decline in the number of disputed NLRB elections since 1955 is cited as additional evidence that the internal machinery of the AFL-CIO for settling jurisdictional conflicts has been operating fairly successfully since the merger.[8] But merger of AFL-CIO unions with conflicting and overlapping jurisdictions has proceeded at a snail's pace since 1955. Only four mergers have actually been completed, with a fifth scheduled for completion in the spring of 1959.[9] Merger negotiations are currently being conducted between former AFL and CIO unions in the meat-packing industry, the oil and chemical industries, the paper and pulp industry, and a few other areas, but not very much progress is reported.

Despite this fairly impressive evidence of success in settling jurisdictional disputes, jurisdictional rivalry continues to run fast and deep within the AFL-CIO; in fact, it has been greatly intensified in several areas since the merger itself. The AFL-CIO machinery failed completely to resolve the conflicting jurisdictional claims between the Pilots union and the Flight Engineers in the fall of 1958 and a number of crippling strikes in the air transport industry were basically over this issue. The deepest and most serious jurisdictional disputes are those involving the Building Trades Department and the Industrial Union Department of the AFL-CIO. These disputes center mainly around jurisdictional rights in construction and maintenance work in companies organized by industrial unions. These disputes reached

[7] *Ibid.*

[8] The number of disputed NLRB elections involving two or more AFL-CIO unions declined from 14 percent of all NLRB elections in 1955 to 5.8 percent of all NLRB elections in 1958. NLRB Annual Reports, 1955-58.

[9] The Metal Engravers merged with the Machinists, the AFL Barbers unions merged with the CIO Barbers, the AFL State, County, and Municipal Workers merged with the CIO Government and Civic Employees, the AFL Paper Workers merged with the CIO Paper Workers, and a merger agreement has been signed between the AFL Insurance Agents and the CIO Insurance Workers.

such a serious state in 1957 that they required the personal intervention of President Meany to effect a compromise agreement and prevent the secession of the Building Trades Department unions from the federation. But the truce is an uneasy one at the moment with unions like the Steelworkers and Automobile Workers refusing to give up their jurisdiction over new construction in their respective industries.

Added to these serious (and largely unresolved) work jurisdictional claims, however, have been the greatly intensified membership jurisdictional conflicts. Part of this intensified conflict has been the result of the expulsion of former affiliates. The chartering of new unions in competition with the expelled ones may or may not prove to be a successful maneuver in recapturing this membership. The reluctance of the AFL-CIO to charter new unions and engage in open membership conflict with the Teamsters indicates that the AFL-CIO is very doubtful as to the probable success of such a move. But the Teamsters show no similar reluctance to engage in open membership conflict with the AFL-CIO, and their aggressive organizing campaigns in Puerto Rico, and in the oil, shoe, and hotel and restaurant industries in the United States seems to make the avoidance of open warfare between this union and the AFL-CIO improbable.

Membership jurisdictional rivalry between affiliated unions has also been intensified rather than reduced in several areas since the merger. The conflicting claims over membership between the Machinists union and the Steelworkers, for example, have reached serious proportions in the organizin efforts of these unions in areas like th aluminum industry. Thus the old craft industrial feud that split the federatio wide open 25 years ago is once agai appearing as a major threat to th success of the AFL-CIO merger in th rivalry between unions affiliated wit the Metal Trades and Building Trade Departments on the one hand, and th unions affiliated with the Industria Union Department on the other.

Organizing the Unorganized

The biggest disappointment to th proponents of merger has been the fai ure to make any significant progress i recruiting new members. The rosy op timism in connection with what merged federation could do in this are has gradually given way to rather blea pessimism. To some extent this failu might be attributed to the fact that th merged federation has had to devo such a large proportion of its time an energy to dealing with the intern problems of corruption and jurisdictic and the external problem of fighting c restrictive labor legislation that it h not been able to concentrate on tl problem of organizing. But this expl nation is only partially valid. The re explanation for this failure appears be the overwhelming obstacles to c ganization in the unorganized segmer of the labor force.

The most basic factors restricting u ion organization and growth are four in the changing characteristics of t labor force. The first of these facto is the remarkable growth in the numb of women workers in the labor force

the past twenty years. Today over one-third of the labor force is composed of women, and even more importantly, 60 percent of present-day women workers are married, and nearly one-half of all women workers are over forty years of age. When it is further realized that these women workers are predominantly intermittent or part-time workers, that most of them are not working primarily because of economic necessity, and that they do not therefore form strong attachments to particular jobs or industries, the union task of organizing these workers becomes a formidable one indeed. A second labor force trend mitigating against organizing success has been the great increase in white collar occupations — professional, technical, clerical, and sales workers. These white collar workers make up about 40 percent of the labor force now and it is expected that they will make up 50 percent of the labor force by 1975. Traditionally weak in their enthusiasm for collective bargaining, easily susceptible to employer influence, motivations, and attitudes, and without the driving force of economic hardship, these white collar workers provide a strong, resistant group to organization. The rise in the incomes and economic status of this group in the postwar years has hardened their resistance to, and weakened the appeal of, union organizing efforts.

A third labor force trend of some significance in explaining why union organizing has been less successful in recent years is found in the impact of automation on the skill-mix in industry. Automation appears to be reversing a long-time trend of declining numbers of skilled and increasing numbers of semiskilled and unskilled workers. The new type of highly skilled worker in automated industry may very well feel more akin to the professional and technical categories of employment and thus less interested in collective bargaining. The conflicting claims of craft versus industrial unions for jurisdiction over these workers may increase the difficulty of organizing them into either.

Besides these labor force trends which have retarded union organization, the social and industrial climate of many geographic areas remains hostile to organization. This is particularly evident in the South and in the more agricultural areas of the Middle West and the Far West. The bitter opposition of employers in the South, particularly textile manufacturers, is not alone a sufficient explanation of union organizing failures in this area. The firm position of the AFL-CIO on school integration and no union race discrimination has certainly not made organization in the South any easier. The enactment of "right-to-work" laws in predominantly agricultural Midwestern states is indicative of the hostile climate for union organizational efforts in these areas.

All in all there appears to be little ground for believing that any spectacular successes will crown the organizing efforts of the AFL-CIO in the great unorganized areas of chemicals, electronics, oil, distribution, and white collar occupations.

Labor Legislation

How successful has the merged federation been in influencing public opinion and securing the enactment of

favorable labor laws since 1955? The answer here must be largely negative. It has so far failed completely to get any softening of Taft-Hartley restrictions on union activities. It has failed to get any repeal of "right-to-work" laws at the state level. There have been no improvements in the federal wage and hour law since 1955 and only minor improvements in the Old Age and Survivor Insurance program. No federal changes in the unemployment compensation provisions of the Social Security Act have been enacted since 1955. Some success may be claimed for the increased benefits in workmen's compensation and unemployment compensation laws at the state level. Of course it may be claimed that the merged federation has had considerable success in preventing more restrictive federal legislation from emerging as a result of the congressional investigations into improper union-management activities. The federation has also assumed credit for defeating a large number of labor's "enemies" and electing a large number of its "friends" in the 1958 congressional and state elections, as well as for defeating eight out of nine state "right-to-work" proposals in the same election. Perhaps its political influence can best be measured after the 86th Congress has completed its work. But at least up to now it cannot be said with any accuracy that the merged federation has had any more pronounced success in influencing labor legislation or regaining public and political support for its objectives than the former separate federations had.

The Prospects

Organized labor has been on the defensive since the end of World War II. The merger of the AFL-CIO in 1955 was itself basically a defensive move. There has been little opportunity since the merger for it to drop its defensive activities and go all out for offensive strategy and action. Its future prospects must, therefore, be judged largely in terms of how successfully it can retain its defensive strength and at the same time regain the offensive power to move toward its longer-run objectives.

The fact that the federation has survived at all after four years of extraordinary strains and stresses cannot be dismissed lightly in assessing its future. The authority assumed over its affiliates and the discipline enforced against them in the areas of corruption and jurisdiction are without precedent in the American labor movement. It has accepted its responsibilities in these areas and discharged them with a vigor that has won it both internal support and public acclaim. All this has been carried out in the face of the strongest traditions of national union autonomy and exclusive jurisdictional claims. The establishment of clear-cut standards for proper union conduct on the part of its affiliates, and the enforcement of these standards by expulsion for nonconformance, have raised membership in the federation to a new high level of respect and desirability. The social stigma of expulsion has thus taken on a new significance since the merger. In addition it can perhaps be said with a considerable degree of accuracy that the ability and willingness of the AFL

CIO to deal promptly and firmly with the corruption issue has prevented the emergence of stern regulatory federal legislation in the past two years.

For all these achievements, the leadership of President George Meany must be given major credit. The respect he commands, inside and outside the federation, is the federation's greatest source of strength and its principal hope for future success. It is difficult to see how a man of less stature could have prevented the disintegration of the federation before now. But in this very fact lies one of the federation's greatest weaknesses as far as the future is concerned. Since Mr. Meany is 65 years of age, his leadership cannot be relied upon for many more years. And there is no heir apparent on the horizon at the moment who seems capable of filling his shoes.

Despite these successes and evidences of strength up to now, the federation has major weaknesses that must be weighed carefully in appraising its future. The jurisdictional rivalry between the older craft unions in the Building and Metal Trades Departments and the larger industrial unions in the Industrial Union Department continues as a major threat to the future of the federation. These departments are so far apart in terms of their basic ideologies, the personalities of their leaders, and the jealousies and suspicions with which they view each others' actions that it may well take more labor statesmanship than even a George Meany can muster to prevent a crack-up of the federation. In view of the varied backgrounds of the present affiliated members, and particularly the strong traditions of union autonomy and exclusive jurisdiction on the part of the older craft unions, it will be little short of a miracle if the uneasy peace now in effect does not erupt into wide-open conflict.

The ousted Teamsters union will continue to represent a major threat to the continuance of the merged federation as long as it remains outside the federation. The financial and other aid and comfort the Teamsters union constantly proffers to the older craft affiliates in their jurisdictional battles with the newer industrial unions can only weaken the prospects for future success of the federation. The reluctance of the federation's leadership to meet this threat by engaging in open conflict with the Teamsters on the organization front is indicative of the gravity with which this powerful union's position outside the federation is viewed. A strong, stable federation without the Teamsters union, therefore, does not appear to be very likely.

At least two additional factors at the moment seem to be operating to dim the prospects of success for the federation. One of these is the disappointing results in organizing. If no significant progress is made in the future in this area, it seems certain that intensification of quarreling and conflict over the already organized must be expected. The second factor involves the ability of the federation to continue its enforcement of the Ethical Practices Code against noncomplying affiliates. How far can or will the federation go in expelling affiliates for noncompliance without wrecking the federation itself? This issue is currently before the federation in the form of threatened se-

cession of the big Carpenters union. Carpenters President Hutchison has refused even to appear before the Executive Council to explain his use of the Fifth Amendment in congressional committee hearings. The recent convention of the Carpenters authorized withdrawal of the union from the federation if Mr. Hutchison is subjected to any form of disciplinary action. Up to now, the Executive Council has been unwilling to push the matter any further.

On balance, therefore, where does the federation stand today? In spite of a remarkable demonstration of strength and survival power in the face of extreme adversity the past four years, will its weaknesses bring about its downfall? It is the writer's opinion that the federation will endure. There is simply too much at stake for it to accept failure. The compelling motives behind the merger in 1955 are still present today and are operating as even stronger forces in holding the federation together. All the work, the sacrifices, and the compromises that went into the consummation of the merger will not be cast aside lightly. Much, of course, depends upon such unknowns as the direction of federal labor legislation, the continuation of Mr. Meany's strong leadership, the ability to deal with the ousted Teamsters, and the strength of the desire to find peaceful compromise solutions to knotty jurisdictional problems. But the penalties of failure are too serious for the future of organized labor in America to allow another breakup.

Rate Making and the Transportation Act of 1958

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THE Transportation Act of 1958 is not a voluminous law, but it does include several very important provisions. One of these is Section 6 which adds a new paragraph to Section 15(a) of the Interstate Commerce Act. Before passage of the act of 1958, Section 15(a) read as follows:

(1) When used in this section, the term "rates" means rates, fares, and charges, and all classifications, regulations, and practices relating thereto.

(2) In the exercise of its powers to prescribe just and reasonable rates the Commission shall give due consideration, among other factors, to the effect of rates on the movement of traffic by the carrier or carriers for which the rates are prescribed; to the need, in the public interest, of adequate and efficient railway transportation service at the lowest cost consistent with furnishing of such service; and to the need of revenues sufficient to enable the carriers, under honest, economical, and efficient management to provide such service.[1]

The act of 1958 added a new paragraph as follows:

In a proceeding involving competition between carriers of different modes of transportation subject to the Act, the Commission, in determining whether a rate is lower than a reasonable minimum rate, shall consider the facts and circumstances attending the movement of the traffic by the carrier or carriers to which the rate is applicable. Rates of a carrier shall not be held up to a particular level to protect the traffic of any other mode of transportation, giving due consideration to the objectives of the national transportation policy declared in this act.

This is a very small part of the act, and there seemed at the time to be general agreement that it would be at least an acceptable improvement in the Interstate Commerce Act. Yet since August 12, 1958, when the act became effective, it has caused more controversy than any other section. The controversy apparently was not anticipated by Congress or President Eisenhower and his advisers. However, the factors involved are basic and have their roots going back many years.

I.

The power to prescribe minimum rates was first conferred upon the Interstate Commerce Commission in the

[1] *United States Code Annotated, Title 49, Transportation Sections 1 to 15(b)* (Brooklyn: West Publishing Company and Edward Thompson Company), p. 228.

Transportation Act of 1920. At that time railroads moved virtually all intercity freight with the exception of traffic moving on the Great Lakes and coastal waterways. Therefore, the rate provision of the act of 1920 was designed to regulate traffic moving by rail with no consideration given to movement by competing modes of transportation.

The commission had requested authority to fix minimum rates as early as 1893. Over the years, it learned that discrimination could be in the form of unreasonably low rates as well as unreasonably high rates, for excessively low rates at competitive points cause an undue burden on rates charged at noncompetitive points. Minimum rate regulation also enabled the commission to prevent cutthroat competition which at times had seriously damaged rail service and credit.[2] The act of 1920 directed the commission to fix the rates so that "carriers as a whole . . . will, under honest, efficient, and economical management . . . earn an aggregate net railway operating income equal to a fair return upon the aggregate value of the railway property." This was the central theme of the rate-making portion of the act of 1920 which was to protect the earnings of the railroads through having the commission prevent unduly low rates that might cause railway earnings to be dangerously deficient.

Theoretically, the reasonableness of rates should be determined by ascertaining the direct expenses involved in moving a commodity and by adding a portion of the overhead costs of the carrier to the direct expenses. But the weight accorded to various cost factors is often difficult to determine and is seldom stated, with the result that it is virtually impossible to justify a specific rate as the best rate from the standpoint of the carrier, the shipper, and the public in general. Although principles of rate making are not difficult to understand when isolated and considered separately, conclusions in specific cases are often reached with great difficulty. No mathematical rule or formula has been developed whereby a specific rate may be ascertained as reasonable or unreasonable.

Most rates are determined without any analysis of over-all cost incurred by the carrier in providing the service. As the newer modes of transportation have provided greater competition for traffic which long moved almost exclusively by rail, minimum rates have taken on added significance. As a general principle, each rate charged must be compensatory in the sense that it is as high as the fully allocated cost incurred by the carrier in providing the service. If the cost could be determined with a marked degree of definiteness, the problem would be relatively simple. However many factors influence the cost of any specific shipment. Volume, density, direction, and regularity of movement along with value of the service to the shipper vary with each commodity and each route over which commodities move. Had there been relatively accurate measurements of costs of specific shipments at some earlier period, and had a rate structure based on such measurements been established, th

[2] Russell E. Westmeyer, *Economics of Transportation* (New York: Prentice-Hall, 1952), p. 138.

present situation would be more satisfactory. Unfortunately, both cost and rate increases have intensified the original difficulties of ascertaining the exact cost of providing a specific service.

II.

For about a century, the railroad problem was *the* transportation problem. The act of 1920, like previous transportation laws, was a railroad regulatory measure and identified interstate transportation as railroad transportation. Between 1920 and 1940, great changes took place with regard to intercity freight transportation. The railroads, though still the largest of all carriers, no longer dominated the transportation scene. With the rapid growth of motor, water, and air transportation in the 1930's, the railroad problem became part of a larger transportation problem. In 1935, the motor carriers were brought under the regulatory jurisdiction of the Interstate Commerce Commission with virtually the same regulation for motor common carriers as had long been the case with the railroads. In 1938, the airlines were brought under regulation by a separate agency. Throughout 1938 and 1939, Congress worked on further transportation legislation that eventually led to the Transportation Act of 1940.

Congress believed that it was necessary that developing, coordinating, and preserving the national transportation system become a matter of public policy. Among the most important features of the act of 1940 was the following declaration of national transportation policy:

> It is hereby declared to be the national transportation policy of the Congress to provide for fair and impartial regulation of all modes of transportation subject to the provisions of this Act, so administered as to recognize and preserve the inherent advantages of each; to promote safe, adequate, economical, and efficient service and foster sound economic conditions in transportation and among the several carriers; to encourage the establishment and maintenance of reasonable charges for transportation service, without discrimination, undue preferences or advantages, or unfair or destructive competitive practices; . . . to the end of developing, coordinating, and preserving a national transportation system by water, highway, and rail, as well as other means. . . .

This declaration recognized that regulated railroads could not compete successfully with unregulated carriers and that undesirable economic consequences would inevitably develop from permitting all types of carriers to compete for traffic without regard for cost or efficiency of service. It was further recognized that each mode of transportation has certain "inherent" advantages, and the commission was directed to recognize and preserve the advantages of each.

The declaration of policy has been extremely difficult to interpret. In the debate in Congress regarding the act of 1940, there seemed to be great concern over the relationship between rates charged by the various types of carriers with no indication of general agreement about the actual meaning of the sections of the act related to rate-making policies.[3] Some of the statements by members of Congress indicated concern

[3] *Congressional Record,* Vol. 86, Pt. 6, pp. 5836 and 5887.

that the sections on rate making were discriminatory. Others were concerned about destroying competition, and several expressed the belief that this was just another bill to extend regulation in the interest of the railroads.

III.

In July, 1954, President Eisenhower established the Presidential Advisory Committee on Transport Policy and Organization with Secretary of Commerce Sinclair Weeks as chairman. This committee submitted its report to the President, and the report became the basis of a proposed bill submitted by the Acting Secretary of Commerce to both houses of Congress in May, 1955. One of the major sections of the committee report dealt with the rate-making problem. The report recommended that the authority of the Interstate Commerce Commission over maximum-minimum rate control be limited "to determination of reasonable minimum or maximum rates." The report further stated that

> These rate controls were vested in the ICC during the period when the railroads were the sole or predominating intercity form of transportation. The principal purpose of these controls was to protect the general public against railroad monopolistic pricing or unfair or discriminatory rate relationships between competing shippers, markets, localities, or traffic. . . .
>
> With the changed character of transport organization and development of greatly increased regulated and unregulated service and cost competition for traffic, there is no longer a need in the public interest to continue the present scope of rate controls if the Nation is to have a healthy common carrier industry, and to help assure the economic use and needed development of our transport capacity.[4]

The report questioned the commission's judgment in determining minimum rates and said that the existing policy permitted carriers "to do no more than to meet competition facing them which . . . means to name the same rates regardless of cost relationships." It was stated further that rate maladjustments deprived

> the public of the economy which would result from a distribution of the traffic in accordance with the real capacities of the several types of carriers just as they deprive the shipper of many valid choices which would be available to him were the rate competition more free. . . .

To carry out the recommendations found in the report of the presidential committee, the proposed bill suggested that Section 15(a) of the Interstate Commerce Act be rewritten. Among the five paragraphs suggested in the new wording of Section 15(a) was the following portion of the first paragraph:

> In determining whether a rate, fare, or charge, or classification, regulation or practice to be applied . . . results in a charge which is less than a reasonable minimum charge . . . , the Commission shall not consider the effect of such charge on the traffic of any other mode of transportation; or the relationship of such charge to the charge of any other mode of transportation or whether such charge is lower than necessary to meet the competition of any other mode of transportation. . . .[5]

The report of the policy committee, the proposed bill, and various public statements of officials of the executive

[4] *Modern Transportation Policy*, United States Department of Commerce, June, 1956, p. 5.

[5] *Ibid.*, p. 14.

branch of the federal government indicated strong sentiment toward removing the authority of the commission to fix precise rates and to establish a zone of reasonableness within which carriers might adjust rates and compete for traffic on the basis of managerial decision. There seemed to be a feeling that rates should be fixed by carrier management and that the effect that any rate change might have on traffic of any competing carrier should in no way be considered in determining whether such a rate should remain in force. Consequently, the only rates that should be suspended by the commission were those which might be unreasonably high or those below the cost of service.

IV.

The Transportation Act of 1958 did not go as far as the proposed bill introduced in May, 1955. Instead of repealing Section 15(a), the act of 1958 merely added a third paragraph to the first two as previously quoted. In the new paragraph, however, is a statement that rates "shall not be held up to a particular level to protect the traffic of any other mode of transportation." The question is, Precisely what does this act allow in regard to rate making that was not possible under the Interstate Commerce Act prior to passage of the 1958 law; and if there are changes, exactly what are they?

Commissioner Kenneth H. Tuggle, on November 13, 1958, stated his opinion concerning the change in Section 15(a) as follows:

> One thing is certain: The new Act sets at rest any doubt that may have existed concerning the propriety of the "umbrella" principle of rate making. The total collapse of that umbrella results from the specific provision in the new act that the rates of a carrier shall not be held up to protect the traffic of any other mode of transportation.[6]

The implication of Commissioner Tuggle's statement is that the so-called "umbrella" principle had been used to hold rates higher than were necessary to cover the cost of service when in the judgment of the commission a lower rate would adversely affect traffic of a competing mode of transport. How much of that was done between 1940 and 1958 is very difficult if not impossible to determine because so many other factors have influenced each case that has arisen. In the debate on the House floor, Representative Allen of Illinois stated that

> It has been argued and, I believe, demonstrated that the ICC too often refuses to approve reduced railroad rates because of the adverse effect it is feared those reduced rates would have on trucks or barges — or that truck rates have in some cases been held up higher than they might reasonably be set just because of the adverse effect lower truck rates would have on railroad traffic.[7]

Senator Lausche of Ohio made the following statement before the Senate:

> The railroads are required to hold an umbrella over the heads of the truckers and barge lines. They are told when they charge a rate which is low, even though it makes a profit for them, that such rate is not allowable if it will adversely affect

[6] *Traffic World,* Vol. 102, No. 20 (November 15, 1958), p. 28.

[7] *Congressional Record,* Vol. 104, No. 107, p. 11351.

the ability of the truckers or the barge lines to remain in business.[8]

Although the Interstate Commerce Commission probably deserves some criticism for its handling of minimum rate cases, most of the difficulty is the result of the act of 1940 and its amendment to Section 15(a). Much of the wording of the act with regard to rate making is indefinite to the extent that no one can know precisely what the law means or predict the interpretation of the law by either the commission or the courts in any specific case. The commission noted in a decision soon after the act of 1940 became effective that the new law required that "due consideration" be given "to the effect of rates upon the movement of traffic by the carrier or carriers for which the rates are prescribed."[9] In this same decision, the commission noted that these particular words did not appear in either of the bills originally passed by the Senate or the House of Representatives but were added by the conference committee.

In 1945, the commission attempted to clarify its interpretation of the law with regard to minimum rate regulation:

> What constitutes a minimum reasonable rate is a matter to be determined in the light of the facts of record in each individual case, avoiding arbitrary action and keeping within statutory and constitutional limitations, just as in the case of maximum rates. Whether a rate is below a reasonable minimum depends on whether it yields a proper return; whether the carrier would be better off from a net revenue standpoint with it than without it; whether it represents competition that is unduly destructive to a reasonable rate structure and the carriers; and whether it otherwise conforms to the national transportation policy and the rules of rate making declared in the Act of 1940.[10]

The commission stated further that "there appears no warrant for believing that rail rates . . . should be held up to a particular level to preserve a motor rate structure, or vice versa." In its efforts to further clarify that basic problem, the commission, in the same decision, noted that it is "obvious that rate reductions cannot be halted by the prescription of minimum rates unless the existing rates have fallen below a reasonable minimum level."[11]

In a 1957 decision, the United States Supreme Court stated that the "ability of one mode of transportation to operate with a rate lower than the competing types of transportation is precisely the sort of 'inherent advantage' that the National Transportation Policy requires the Commission to recognize."[12]

From these decisions, one might conclude that the so-called "umbrella principle" had never been recognized by the commission or the Supreme Court and that it has not been followed in rate cases. However, Congress seems to have assumed that the commission has frequently disapproved rate reductions when it appeared that the traffic of competing modes of transportation might be adversely affected. Professor Williams in his recent book observed that "umbrella" rate making has gen-

[8] *Congressional Record,* Vol. 104, No. 94, p. 9721.

[9] 243 I.C.C. 199, 214 (1940).

[10] 259 I.C.C. 475, 534 (1945).

[11] *Ibid.,* p. 538.

[12] 355 U.S. 83, 91 (1957).

erally been opposed, but he states that "the Commission on several occasions prevented rail carriers, whose fully allocated costs were no doubt below those of motor carriers, from undercutting the competition. . . . This would appear to be 'umbrella' rate making, but it has not been identified as such."[13]

V.

Before August 12 when the act of 1958 became effective, questions were being raised about what changes had been brought about by the new law. The August 4 issue of *Railway Age* stated that the act directed the commission "to place greater emphasis on the desirable development of keener competition among various modes of transportation when the Commission judges proposed rates submitted for its approval."[14] In a later issue of *Railway Age,* a survey of opinions of shippers in regard to the meaning of changes in Section 15(a) was reported. In response to the question, "Do you think the new rate-making rule will increase or reduce competition in transportation?" 86 indicated that they thought competition would be increased, whereas 18 indicated that they thought there would be no change.[15] To the question, "Do you interpret the new rule to mean that railroads will find it easier or more difficult to make competitive rates designed to hold or regain traffic?" 97 indicated easier, 4 harder, and only 4 thought that there would be no change. The significant aspect of the replies to the question is the fact that nearly all shippers polled believed that the new law would give the railroads more freedom in reducing rates in order to increase traffic.

Soon after the act passed, railroads in several sections of the country indicated interest in "agreed-charge contracts" in which shippers who agree to route at least a specified percentage of their traffic via rail would be promised rates lower than the regular existing rates.[16] Agreed charges have been used in Canada for many years, but they would be a definite departure from traditional rate-making practices in the United States. No specific reference to such rates can be found in the act of 1958. It might be inferred that the paragraph modifying Section 15(a) which directs that rates "shall not be held up to a particular level to protect traffic of any other mode of transportation" indirectly grants such authority. In essence, such rates would mean that railroads would be permitted to render contract-carrier service along with their regular common-carrier service. It is doubtful that any basis for approval for such rates can be found in the act of 1958 that did not already exist in the Interstate Commerce Act.

In November, 1958, Division 2 of the Interstate Commerce Commission suspended reduced rates on paint filed by certain Eastern railroads. The railroads contended that the proposed new rates were low enough to attract additional

[13] Ernest W. Williams, Jr., *The Regulation of Rail-Motor Rate Competition* (New York: Harper and Brothers, 1958), p. 178.

[14] *Railway Age,* August 4, 1958, p. 9.

[15] *Railway Age,* September 29, 1958, p. 18.

[16] *Railway Age,* November 3, 1958, p. 9, and December 15, 1958, p. 9.

traffic but high enough to yield a reasonable profit and that these rates should not be disallowed because of any adverse effect on competing forms of transportation. But when motor carriers protested, the commission suspended the new rates until April 2, 1959.[17] Apparently, the commission was not certain as to just how much initiative is to be allowed railway management in downward modifications of rates when traffic gained by railroads is at the expense of other modes of transportation.

Closely following this commission action, Representative Oren Harris, chairman of the House Interstate and Foreign Commerce Committee, stated in a speech in Chicago that he hoped "it is understood by all, including the ICC and the Supreme Court, that each mode of transportation should have opportunity to make rates reflecting the different inherent advantages each has to offer."[18]

Another indication of confusion as to what rate-making changes were made by the new law was a statement by Commissioner Hutchinson when he said that "Congress had prevented the Commission from doing that which the Commission has historically taken the position it did not do anyway." Representative Harris, in response to Commissioner Hutchinson's statement, replied that "if the Congress had been persuaded by the Commission's position that it already does what the Transportation Act of 1958 admonishes it to do . . . there obviously would have been no need for a change in the law."[19]

VI.

One indication of the intent of Congress in passing the Act of 1958 is what was said by the members during debates on the act.

In response to a question by Senator Potter as to whether one mode of transportation shall be protected at the expense of another, Senator Bricker replied that a "rate should be considered as a part of the whole rate structure and a part of the rail structure, rather than as a part of the overall structure of the various other modes of transportation." Senator Potter stated that "the Commission will never be in a position of having to hold an umbrella over one mode of transportation at the expense of another." Later in the debate, Senator Potter said that

> it is the intent of the rate-making section of the bill really to reaffirm what Congress has already said to be the policy. This provision is included because at times the Commission has sought to stray from the declared policy of existing law; and therefore we wish to make sure that the Commission conforms to the national transportation policy.[20]

Senator Lausche confirmed Senator Potter's statement.

[17] *Traffic World*, November 22, 1958, p. 25.

[18] *Railway Age*, November 17, 1958, p. 9.

[19] *Railway Age*, December 1, 1958, p. 42

[20] *Congressional Record*, Vol. 104, No. 94 p. 9741.

In the House debate, Representative Harris stated that

> if a carrier can provide a rate, that is fully compensatory, to the shipping public the Commission cannot as it is contended in many instances they are doing, require that carrier to hold that rate up to a higher level just because it is necessary to keep another mode of transportation in business.[21]

In response to a question, Representative Harris stated that "we [Congress] do say that if a carrier can provide a rate which the Commission determines is fully compensatory to the carrier, then the shipper should have the benefit of that rate." Representative Avery stated that under the new law, the commission "is not required to hold up an individual rate on a given commodity . . . just to protect another and competing mode of transportation."[22]

Other questions and answers given by members of both houses make it quite clear that there was no disagreement among the members of Congress as to the intent and meaning of this section of the act of 1958. The difficulty seems to have arisen over whether the commission had been adhering to the policy formerly designated by Congress with special reference to the act of 1940. The members of two committees working on the law seemed convinced that the commission had in certain instances refused to approve reductions in rail rates solely because of the adverse effect such rate changes would have on other modes of transportation.

[21] *Congressional Record,* Vol. 104, No. 107, p. 11359.
[22] *Ibid.,* p. 11366.

VII.

Before Congress had passed the act of 1958, the Senate adopted a resolution (S. Res. 303) presented by Senator Smathers providing for a study of transportation policies in the United States. The study is to cover "a number of long-range policy matters that need extensive study to the end that appropriate legislation be enacted to ensure a sound national transportation system."[23] Senator Smathers said that the problems related to transport policy cannot be solved by hearings alone and that a considerable amount of specialized work is needed to arrive at "workable solutions." The resolution noted that a "sound national transportation system is essential to the continued economic development and defense" of the country and that such a system can be realized only if "fair and equitable Federal policies" are observed in regulating the various modes of transportation.

There is no specific reference to rules of rate making in the resolution. Apparently, the members of Congress were convinced that the Senate and House bills which later became the 1958 act had provided for modifications in rate making necessary to meet present-day conditions. Of the six matters to be investigated, only the first one — "the need for regulation of transportation under present-day conditions and, if

[23] *Congressional Record,* Vol. 104, No. 74, p. 7486.

there is need for regulation, the type and character of that regulation" — can be construed as having any reference to the basic rules of rate making as specified in Section 15(a) of the Interstate Commerce Act. Yet it is unthinkable that such a comprehensive study as the one anticipated will not give serious consideration to the rate-making problem, which still, obviously, requires clarification and possibly modification.

Effect of Growth of Consumer Credit on Purchasing Power of Borrowers

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GROWTH in total outstanding consumer credit has received much attention as a factor enhancing aggregate consumer buying power. This growth is an important factor in the purchase of consumer durable goods. One interesting feature, however, that has received too little attention is the effect of interest payments by borrowers on consumer purchasing power, particularly that of the borrowing group. Sellers of consumer durables as well as economic analysts might well give more thought to these effects. This study examines the importance of interest payments in relation to the growth of consumer credit and the effect of these two factors on the purchasing power of borrowers and points to important considerations derived from this analysis, particularly for durable-consumer-goods markets.

Effect of Consumer Credit Growth on Borrowers' Purchasing Power

When borrowers are taken as one subaggregate of consumers, it is important to realize that for them interest payments subtract from purchasing power. Thus, whereas consumer credit growth adds to this group's ability to buy, interest payments may completely offset this addition. To relate consumer credit growth and interest rates, it is convenient to begin as follows:

- T — total outstanding credit at any one time.
- ΔT — change in T over any chosen time period, X (say, one year).
- i — effective interest rate on $(T+\Delta T)$ per period X.
- G — growth rate of credit or $\frac{\Delta T}{T}$.

The point of interest in this paper is the establishment of a break-even growth rate of credit that corresponds to any given i. Whenever this break-even point is reached, the addition of purchasing power from a growth in T (consumer credit in this case) is just offset by interest payments on T. This occurs, approximately at least, when

$$(1)\quad i\left(T + \frac{\Delta T}{2}\right) = \Delta T.$$

The expression $\frac{\Delta T}{2}$ assumes that the increase in outstanding credit occurs

at a uniform rate throughout the period; hence the interest rate when expressed as a percent per annum applies to only one-half of the yearly increment. From equation (1),

$$(2)\ \frac{\Delta T}{T} \text{ or } G = \frac{2i}{2-i}.$$

Using this formula, some break-even rates of growth corresponding to specified interest rates are the following:

i (percent)	Break-even G (percent)
8	8.3
10	10.5
12	12.8
14	15.1
16	17.4

Thus, as an example, whenever the effective cost of credit is 10 percent per year, a growth of credit of 10.5 percent per year is necessary just to offset interest payments. If the growth rate is less, the interest cost is removing more from the purchasing power of borrowers taken as an aggregate than the growth of credit is adding to it.

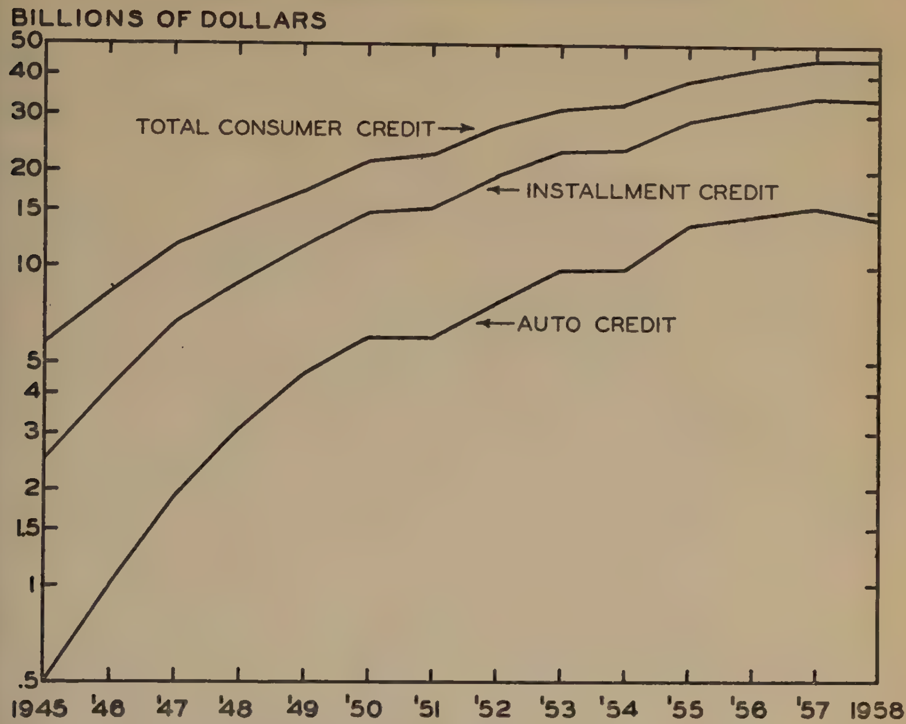
It is important to emphasize that this paper is concentrating on borrowers as a group and not on consumers as a whole. For the all-consumer aggregate, increases in consumer credit add to total purchasing power because interest payments sooner or later flow into income streams. The lending institutions receive the payments which are subsequently disbursed by them in payment of their various costs and taxes and in distributing profits. The cost outlays take many forms, such as wages and salaries of employees, expenditures for utility services and supplies, interest on borrowed funds, and other operating costs. Even outlays for fixed costs, though small in amount, channel funds ultimately in the direction of the income stream. The outlay for taxes is distributed by governments by way of government expenditures. Profits flow to stockholders, or as retained earnings are eventually disbursed through expansion expenditures. All, or nearly all, of these flows ultimately enter households as income and thus become purchasing power for consumers. For the all-consumer aggregate, then, interest payments do not subtract from total purchasing power to any appreciable degree, and growth in consumer credit does add to consumer buying ability.

However, the net effect of consumer credit growth on borrowers' purchasing power is worthy of special attention. The borrowing group, buying on credit, must meet interest payments. Such payments constitute reductions in its ability to buy nonfinancial goods and services. At various times, this group may deny themselves more purchasing power than they gain. In addition, it is possible that a net loss of borrowers' purchasing power, even though credit is growing during that period, can affect the sales of goods that must depend on credit for a market. This point will be explored later.

Postwar Growth of Consumer Credit

Chart 1 shows the growth of consumer credit during the postwar years, 1945 through 1958. Points plotted are end-of-year figures; thus seasonal variations are not displayed. Year-end

Chart 1. Consumer Credit Outstanding, 1945-58



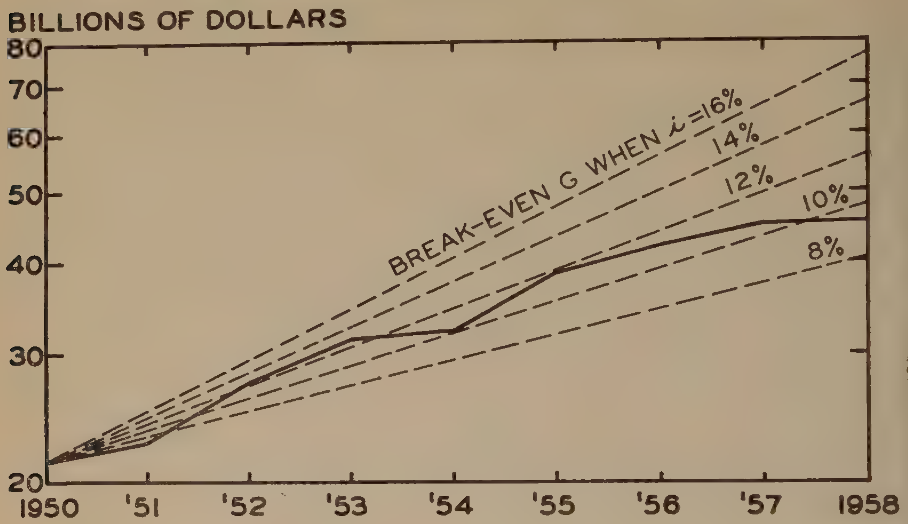
Source: *Federal Reserve Bulletin,* various issues.

figures serve our purpose very well by giving an accurate picture of yearly growth. The chart presents not only total credit figures, but also figures on all installment credit and auto paper. Auto credit is the biggest single component of installment credit, which in turn is the type of credit that is most active among consumer credit types.

It may come as a surprise to those who have not looked at postwar increases in credit from the standpoint of *rate* of growth that the rate has been continuously decreasing since the initial upward surge immediately after World War II. The rates, however, were very rapid through 1950. Yearly rates of increase from 1945 through 1950 were 30.3 percent for total consumer credit, 42.5 percent for installment credit, and 64.9 percent for auto credit. These rates, especially the last one, were so high as to much more than offset the effect of interest payments. During this period, borrowers gained in purchasing power.

Since 1950, however, the picture has been different. Rates of increase declined considerably. From 1950 through 1957, all consumer credit increased at an average yearly rate of only 11.7 percent; installment credit, 12.8 percent; and auto paper, 14.3 percent. Such rates of increase probably do no

Chart 2. Total Consumer Credit and Break-Even Growth Rates, 1950-58



more than offset interest payments, as we shall see. The year 1958 witnessed practically no growth in total credit, a very slight decline in installment credit, and a sizable reduction in auto paper. During a period of no growth or decline, interest payments on outstanding credit represent in their entirety a reduction in borrowers' purchasing power.

Charts 2, 3, and 4 show the recent growth pictures of the same three credit series together with some break-even growth trends that correspond to various interest rates. The solid lines are the actual amounts since 1950. The broken lines are paths of constant yearly growth that the actual figures would have to follow in order just to offset interest payments that correspond to interest rates as shown. For example, if the interest rate on all consumer credit had been 12 percent and had remained at that figure for 1950 through 1958, consumer credit woulc have had to be the following amount: in order for growth to offset the inter est payments: 1952, $27.5 billion; 1954 $34.5 billion; 1956, $44 billion; anc 1958, $56 billion. Actual figures were equal to the offsetting level (for i = 1 percent) in 1952, above it in 1953, anc below it for all succeeding years. Sim ilar interpretations can be made fo each of the dotted lines on each of th three charts. Another approach is t note that the actual growth (agai referring to Chart 2 as an example from the year 1950 was below a break-even paths by 1951, was equa to the 12 percent interest path by 195 was between the 12 and the 14 percen paths by 1953, was just on the 10 pe cent path by 1954, and so on.

For the growth period 1950 throug 1957, interest rates which would, o the average, have reduced borrower purchasing power by the exact amou

Chart 3. Installment Credit and Break-Even Growth Rates, 1950-58

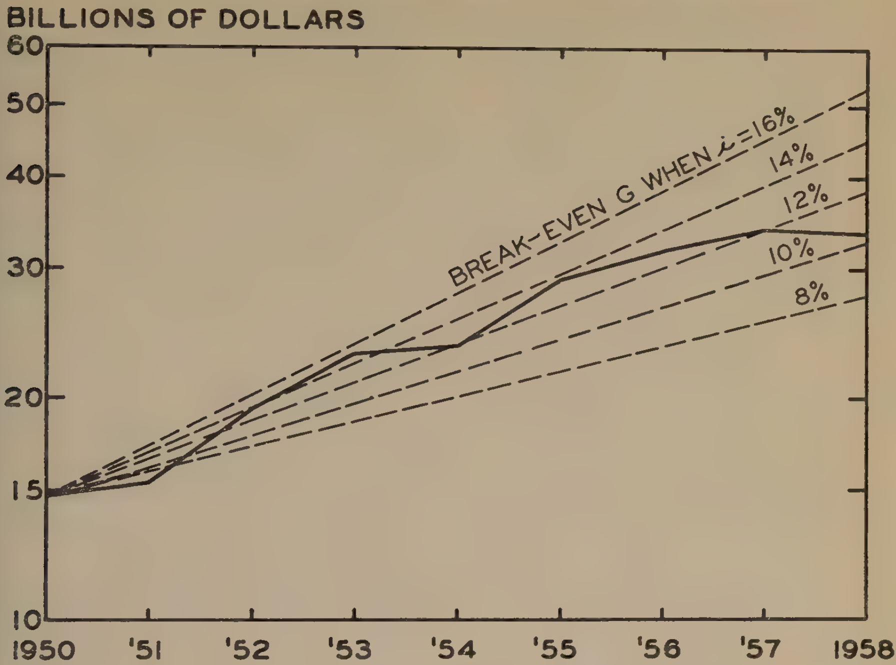
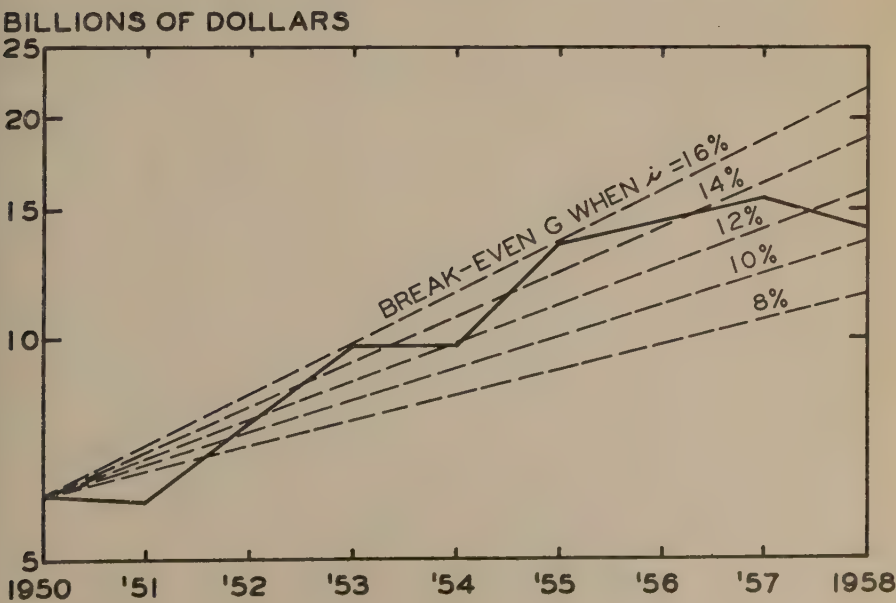


Chart 4. Auto Paper and Break-Even Growth Rates, 1950-58



added from credit growth would have had to be 11.1 percent for total consumer credit, 12.0 percent for installment credit, and 13.3 percent for auto paper.[1] From 1953 through 1957, a period in which growth continued at a slower pace, break-even interest rates would have had to be 9.0 percent, 9.8 percent, and 11.3 percent respectively for these same three aggregates of credit. The record for the recession year of 1958 was one of no growth or of decline, and thus for that year compared with 1957, break-even interest rates would have to have been zero or below.

Actual effective interest rates have certainly been higher, or at least as high, as the break-even rates indicated in the paragraphs above. Accurate rates on consumer credit are difficult to secure because of the variety of methods used in establishing them and the scarcity of statistics on rates used by lending institutions. However, a few indications are available.

Fortune magazine estimated that the interest rate on all installment credit was 16 percent for the year 1956.[2] The Federal Reserve study covering activities of lenders in 1956 indicated that the most common interest rates reported were 6 percent add-on rates for new cars, 8.5 percent for late-model cars, 12 percent for older used cars, and 5 to 7 percent for mobile homes.[3] These add-on rates convert to interest rates of 10.9 percent, 15.3 percent, 21.4 percent and 9.1 to 12.7 percent, respectively.[4] FHA home repair and modernization loans under $2,500 typically carry a 5 percent add-on rate which converts to a 9.6 percent interest rate.

Let us assume that the effective interest rate on all consumer credit was 12 percent (a reasonably typical figure from 1953 through 1957). Borrowers taken as an aggregate would have had to increase consumer credit during that period at an annual rate of 12.8 percent merely to break even. Since the actual rate of growth was 9.4 percent borrowers' purchasing power declined by an average annual amount equal to 3.4 percent (12.8 percent minus 9.4 percent) of their outstanding consumer credit at the beginning of each year

Borrowers and Consumer Durable Goods Markets

It is important to examine the exten of dependence of durable goods sale on consumer credit. Many people cannot buy expensive durable goods item without the use of credit. What frac tion of purchasers of durable good use credit?

Table 1 gives a good indication o the answer to this question. The pic ture displayed in this table shows tha in general about half of the buyers o durable goods items use at least som credit. For new automobiles the per centage reached the high figure of 6

[1] By rearranging formula (2), we get $i = \frac{2G}{2 + G}$.

[2] "The Coming Turn in Consumer Credit," March, 1956, p. 240.

[3] Tynan Smith and Robert W. Johnson, "Operating Characteristics of Consumer Credit Institutions," *Consumer Instalment Credit* (Washington: Board of Governors of the Federal Reserve System, 1957), Pt. 1 Vol. I, p. 53.

[4] Using the direct-ratio method of conver sion.

Table 1. Credit Purchasers of Selected Durable Goods

(Percentage of purchasers using credit)

Durable good	1954	1955	1956
New automobile	61	60	63
Used automobile	61	60	58
Furniture	50	45	46
Television set	57	56	49
Refrigerator	58	51	40
Washing machine	55	55	46

Source: *Federal Reserve Bulletin*, June, 1957, p. 643.

percent for 1956. Findings for 1957 were summarized in the *Federal Reserve Bulletin* as follows (no table was presented):

Purchasers of durable goods made extensive use of short-term credit in 1957. About 6 in 10 spending units buying cars and more than 5 in 10 of those purchasing furniture and household durable goods borrowed to finance their purchases.[5]

This analysis is not intended to condemn consumer credit. On the contrary, it contains the suggestion that a rapid growth of credit is needed to make it a really effective aid in the marketing of consumer durables. With purchases of durable goods so heavily dependent on credit, the net purchasing power of borrowers resulting from the phenomenon of credit growth can hardly be ignored. Recent data on personal consumption expenditures gives some indication of this. Expenditures for consumer durable goods remained fairly level from 1955 through 1957 and have declined since the third quarter of 1957. (See Table 2.) The table also indicates that other categories of consumer expenditures, nondurables and services, followed a different pattern, for the

[5] February, 1959, p. 207.

Table 2. Personal Consumption Expenditures

(Selected periods; billions of dollars)

Period	Durables	Nondurables	Services
Years:			
1950	30.4	99.8	64.9
1953	32.9	118.0	81.8
1954	32.4	119.3	86.3
1955	39.6	124.8	92.5
1956	38.4	131.4	99.6
1957	39.9	138.0	106.5
Quarters (seasonally adjusted annual rates):			
1957–III	40.4	140.5	107.4
IV	39.6	138.8	108.7
1958–I	36.4	139.8	110.1
II	35.6	141.4	111.3
III	36.1	142.9	112.5

Source: Department of Commerce estimates, *Federal Reserve Bulletin*, February, 1959, p. 207.

most part an increasing one during the entire period.

Even though consumer credit increased for the years 1955, 1956, and 1957 and remained level for the year 1958, expenditures for durable goods leveled off and then declined. It is difficult to reconcile these two movements without the realization that the borrowing group actually lost net purchasing power from the credit growth during and even preceding this period.

It should be realized, of course, that installment credit, particularly auto credit, is closely related to durable goods sales and that these credit series declined in 1958. These reductions are obviously important factors in the reduction of expenditures for durable goods for that year. Yet the installment credit and auto paper series were growing during the 1955-57 period, whereas purchases of durable goods remained

fairly constant during those years (actually declining in 1956). Thus the evidence again suggests that the loss of purchasing power to borrowers from the use of credit during those years was important.

If this interpretation is correct — and it is only suggestive at best — one must also realize that a time lag appears between the first years of net loss to borrowers from credit growth and the effect of this loss on sales of durable goods. Although the poor data on actual interest rates makes it difficult to determine the actual years of net loss, it seems obvious that this loss began prior to 1955.

A word can be said about the possible effects of credit growth in the future. To the extent that the analysis presented in this paper is correct, if durable goods purchases are to be stimulated, consumer credit must rise more than sufficiently to offset purchasing power loss resulting from interest payments. The amount of this rise may have to be as much as 15 percent a year or more. The only alternative to this would be for consumers to buy durables without making such extensive use of credit.

Minimum Wages as a Deterrent to Union Organization: Experience in the British Clothing Industry

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THE YEAR 1959 marks the golden anniversary of the passage of minimum wage legislation in modern-day, industrial Great Britain.

Historically, labor unions have had an ambivalent attitude toward government-established minimum wages, welcoming them on the one hand for providing a floor below which workers' wages could not fall but fearing on the other that the outside setting of the minimum rates would make workers feel that unionization was less necessary for them. As late as 1933, the American Federation of Labor stated its position with regard to minimum wage legislation: "The one force necessary to maintain wages is the organization of workers into unions where they can exercise their economic strength."[1]

Have union fears that statutory minimum wage legislation would thwart union organization been justified? Minimum wage legislation was enacted for certain British industries a half century ago, and one of the trades covered has been clothing. In a nation in which most manufacturing industries are highly organized, clothing stands out as an exception, for only a little over one-fourth of Britain's half-million garment workers are union members.

To what extent is the lack of union growth related to the presence of statutory minimum wage boards in the clothing industry? Through an analysis of the conditions that led to minimum wage legislation, the operation of the wage boards, and the growth of trade unionism, this paper seeks to find if minimum wages have had a deterrent effect upon union organization in the British clothing industry.

Sweating

At the turn of the century a great outcry arose in Britain, as well as in the United States, against conditions in the clothing industry. The very bad working conditions in the garment trades led to the term "sweatshop" in the

[1] *AFL Weekly News Service,* April 29, 1933, as quoted in Neil W. Chamberlain, *Labor* (New York: McGraw-Hill, 1958), p. 435.

United States and "sweated industry" in Britain.

In 1890, a committee of the House of Lords had defined sweating in the following words:

> . . . earnings barely sufficient to sustain existence, hours of labour such as to make the lives of the workers periods of almost ceaseless toil, hard and unlovely to the last degree; sanitary conditions injurious to the health of the persons employed and dangerous to the public.

The presence of sweating in the clothing shops was due mainly to the industry's characteristic small-scale, small-capital firms and highly competitive market conditions. The introduction, on a large scale, of subcontracting contributed to its spread. The subcontractor's profit was the difference between what he received from the contracting firm and what he had to pay his workers, and it was to his advantage to reduce wages as much as possible.[2]

In Britain, the Women's Trade Union League launched an anti-sweating campaign as part of a general program to raise the standards of women in industry. Its high-point was the 1906 Exhibition of Sweated Industries, which dramatically presented many gruesome examples of the horrible conditions and resulted in the subsequent formation of the Anti-Sweating League.

To cry out against the bad conditions was not enough — a remedy for the situation had to be found. Many proposals were put forward, including extension of factory inspection and registration of homework, but the opinion that gained dominance called for the establishment of legal minimum wages.

In 1906, the Anti-Sweating League induced the Labor members of Parliament to press for the establishment of minimum wages. The campaign also received the support of the trade union movement. The trade unions were not influenced solely by altruistic and humanitarian motives; they had also come to recognize that the low wages and bad conditions of the sweated workers were a constant threat to the conditions built up for trade unionists.[3]

By 1909, the findings of the House of Lord's Committee on Sweating, of Charles Booth's survey of working class life in London and of Seebohm Rowntree's in York, and the work of the Anti-Sweating League had had their effect, and Winston Churchill was able to pilot a bill through the House of Commons, establishing minimum wage boards for four trades in which wages were considered to be unduly low: chainmaking; machine-lace making; paper-box making; and tailoring, the largest part of the clothing industry, concerned mainly with the manufacture of men's and women's suits, coats, and related garments.

The Trade Boards

The first Tailoring Trade Board, as the boards to establish minimum wage rates were called, came into being on November 23, 1910. It covered the

[2] Maurice Dobb, *Wages* (Cambridge: Cambridge University Press, 1955), p. 77.

[3] Letter of Andrew Conley, General Secretary of the National Union of Tailors and Garment Workers, to Mr. M. Oldred, July 16, 1938.

ready-made and wholesale bespoke[4] tailoring industry. It consisted of 49 members — 22 representing the employers' side, 22 the workers' side, and 5 the public.

The minimum rates were arrived at by a process akin to collective bargaining, plus mediation; the employers proposed a low rate and the workers' representatives a high rate, with the public members having the task of striking some sort of compromise between them. Thus, in 1912, they finally agreed upon minimum rates of 6*d.* an hour for men and 3½*d.* for women.

In its first few years of operation, the results of the minimum wage rates were the abolition of deductions from pay for such things as poor workmanship; a tendency toward a shorter work week, since employers, not wanting to pay workers for sitting around, speeded up the flow of work; and the raising of the earnings of the poorest-paid third of the workers.[5]

No necessary conflict had been envisaged between the existence of the trade board and the spread of unionization, since the board was to be concerned only with minimum rates, leaving the unions free to negotiate standard rates. On the contrary, it was felt that the trade board's raising of the wages of the lowest-paid workers would establish a foundation upon which union organization might take place.

The effect of the board was to encourage organization among employers and federation among the garment unions. It also seemed to provide an impetus to union growth, for the many small unions of garment workers all reported increases in membership between 1911 and 1913. That growth continued through the first World War, and by 1920, membership in the various garment worker unions had climbed above the 100,000 mark.

The apparent success of the early trade boards led to a spread of the system. In 1914, a trade board, covering Great Britain, was established for shirtmaking, another low-wage section of the clothing industry. In 1917 the Whitley Committee on Relations between Employers and Employed recommended that the machinery of the trade boards be applied to all industries in which there existed little or no organization. Following this recommendation, a second Trade Boards Act was passed in 1918, empowering the Minister of Labor, who was made responsible for the administration of the act in place of the Board of Trade, to establish a board where he was convinced that there existed no adequate machinery for the effective regulation of wages, having regard, of course, to the rates of wages prevailing in the trade.[6]

[4] Wholesale bespoke is a halfway house between custom-tailored and ready-made clothing. The clothes are cut to the customer's measure, but are manufactured in factories by methods that have more in common with ready-made clothing production (elaborate division of labor) than with those of the custom tailor. See Joan Thomas, *A History of the Leeds Clothing Industry* (Yorkshire Bulletin of Economic and Social Research, Occasional Paper No. 1, 1955), p. 3 n.

[5] R. H. Tawney, *The Establishment of Minimum Rates in the Tailoring Industry* (London: G. Bell and Sons, 1915), pp. 60-69.

[6] Ministry of Labour and National Service, *Industrial Relations Handbook* (Lon-

The facts (1) that the absence of trade unionism in an industry was a criterion for establishing a trade board in it and (2) that under the amended act the board could fix different rates for different processes or different classes of workers opened the way to making the act a wages regulation measure rather than strictly a minimum wage law.[7]

Since inadequate collective bargaining machinery, as well as unduly low wages, had been made a criterion, trade boards soon covered all branches of the clothing industry. From 1919 onwards then, the trade boards became the principal machinery for wage regulation in the clothing industry. The tripartite boards set the minimum rates for each of the crafts, and the Ministry of Labor enforced them.

Whereas the establishment of the first trade board had seemed to provide a stimulus for the growth of trade unionism, the spread of the trade-board system was accompanied by a precipitous drop in clothing trade union membership. The postwar depression that started in 1921 was largely responsible, and by 1923, membership in needle trades unions had dipped to 45,000, a low-point from which recovery was exceedingly slow.

Despite the decline of unionism and the existence of widespread unemployment, wage rates did not crumble. The rates set by the trade boards proved to be very sticky, declining less than wages in general.[8]

The stickiness of the trade-board rates infuriated the employers. Until 1921, the rates set had met little opposition from the general employer group, even though various groups of employers had felt at a disadvantage, but with the depression the employers opened a general attack upon them.

The attacks culminated in the appointment of a Committee of Enquiry into the Working and Effects of the Trade Boards Acts, headed by Lorc Cave. Its findings were generally favorable, concluding that the acts hac been responsible for the abolition of the worst forms of sweating; had brough order where chaos had formerly existec in wage determination; had given the "good" employer freedom from the unscrupulous competitor; had resulted in improvements in methods of production; had introduced a technique fo collective dealing which had materiall contributed to the goodwill of the trades concerned; and had strengthenec and encouraged organization of both employers and employees.[9]

The committee, nevertheless, recommended that boards be maintained onl where wages were unduly low and poo machinery for collective bargaining existed, instead of where either of thes conditions existed; that minima be fixe only for the lowest grade of ordinar workers, instead of for all grades; tha facilities be provided for the termina tion of boards where the Minister c Labor thought this advisable; tha

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don: Her Majesty's Stationery Office, 1955), pp. 145 and 146.

[7] Helen Fisher Hohman, *The Development of Social Insurance and Minimum Wage Legislation in Great Britain* (New York: Houghton Mifflin Company, 1933), pp. 384 and 385.

[8] *Ibid.*, p. 401.

[9] *Ibid.*, p. 389.

there be greater facilities for district boards within an industry, fixing different district rates; and that a consolidating act be passed to replace all the existing legislation.[10] Parliament, however, took no action.

In 1931, a number of unions also expressed dissatisfaction with statutory wage regulation. They expressly disagreed with the Cave Committee's conclusion that the Trade Boards Acts had strengthened organization among the workers. They contended that, on the contrary, the trade boards hampered trade union organization by encouraging workers to rely upon authority rather than upon their own efforts to improve their terms of employment. An inquiry by the Trades Union Congress' Trades Boards Advisory Council produced no convincing evidence to support the view that the trade boards were responsible for the decline in union membership and it was agreed not to recommend the abolition of any of the existing boards.[11]

The Wages Councils

The trade boards, thus, stood as originally constituted until 1945, when the previous legislation was incorporated into the new Wages Councils Act. This act converted all existing trade boards into wages councils ("to remove the stigma of being associated with the sweated trades") and made provision for the establishment of new wages councils, the abolition of existing ones, and the variation of scope of a wages council.

To a very large degree the Wages Council Act was a mere rewriting of the prior legislation and a change in the names of the boards. The wages councils, which retain the tripartite character of the old trade boards, have the power to submit to the Minister of Labor proposals for fixing the minimum remuneration to be paid workers in their industries, and the minister issues wages regulation orders giving effect to their proposals.

About 3 million workers are in industries covered by minimum wages, including 500,000 clothing workers,[12] and there are now 18 wages councils covering the general category of the needle trades. The workers' side of all the clothing industry wages councils includes representatives of the National Union of Tailors and Garment Workers, the major clothing workers' union, plus, in some cases, those of other unions.

Changes in the minimum rates are achieved in practice through a form of collective bargaining. When the National Union of Tailors and Garment Workers feels that there is a need for an increase in the minimum rates, it so notifies the employers' federation in that branch of the industry and negotiates with it until agreement is reached on the amount the minimum rates should be increased. The next step is the summoning of a formal meeting of the wages council, which proceeds to

[10] S. P. Dobbs, *Clothing Workers of Great Britain* (London: Rutledge, 1928), pp. 97-99.

[11] Allan Flanders, *Trade Unions* (London: Hutchinson's University Library, 1952), pp. 90 and 91.

[12] *British Trade Unionism* (London: Political and Economic Planning, 1948), p. 52.

submit to the Minister of Labor and National Service a proposal to increase the minima. The final step is the issuance by the minister of a wages regulation order to put the proposed minima into effect.

In those branches of the clothing industry, such as dressmaking, in which union organization is particularly weak, the employers' federations will not negotiate with the union, outside the confines of formal meetings of the wages councils, on the minimum wage rates.

British-American Comparisons

Compared with the rest of manufacturing, the clothing industry is highly competitive and is full of innumerable low-capitalized, small-scale producers. It is, in addition, an industry in which the labor factor cost is a fairly high proportion of total cost. Under these conditions, it was inevitable that wages should have been driven down to low levels, as happened in both Britain and the United States in the closing decades of the nineteenth century and the first decades of the twentieth.

The movement to alleviate the situation also grew up in both nations at the same time; and in both, wage regulation was the chief means of accomplishing these aims. Wage regulation helped to stabilize the industry, for it not only benefited the workers, but by standardizing wage rates, it reduced the destructiveness of competition.

The difference between the two countries lies in the means used to achieve some degree of wage standardization. Strangely enough, it was in Britain, the birthplace of trade unionism and the home of voluntarism, that the method of state intervention was used. In the United States, where trade unionism generally had not progressed as much before the first World War, the organization of the workers became the means of achieving wage standardization in the clothing industry.

Trade unionism rose in the American clothing industry at the identical time that minimum wage legislation was enacted in Britain. Although the International Ladies' Garment Workers' Union had been formed in 1900, it made little progress until 1909, when it conducted a successful strike in the New York shirtwaist (blouse) industry, and the event that firmly established it was the cloakmakers' "Great Revolt" of 1910. Similarly, in the men's clothing industry, although the United Garment Workers of America had been organized in 1891, significant progress came after the 1910 strike at the Hart, Schaffner and Marx plant in Chicago and the subsequent formation of the Amalgamated Clothing Workers of America in 1914. From a mere handful in 1908, the ILGWU membership rose to 105,400 by 1920,[13] and from 1915 to 1920, the membership of the ACWA jumped from 38,000 to 177,000.[14]

Improvements in wages, hours, and working conditions that had come about in Britain as a result of the establishment of legally binding standards

[13] Louis Levine (Lewis Lorwin), *The Women's Garment Workers* (New York: B. W. Huebsch, 1924), pp. 139 and 431.

[14] Leo Wolman, *Ebb and Flow in Trade Unionism* (New York: National Bureau of Economic Research, 1936), pp. 178-81.

were achieved in the United States through collective bargaining. The 1910 strike in the New York women's coat and suit industry won the workers a 50-hour week, set up a Joint Board of Sanitary Control, provided for joint labor-management committees to set piece rates, and established minimum wages for week workers. Unionism soon won similar victories elsewhere in the American needle trades.

In the United States, at that time, there could have been no other way of taking labor out of competition than through the organization of the workers and the growth of collective bargaining. It was unlikely that the Congress could have been induced to enact legislation similar to that of the British, and even if it had, the Supreme Court, judging by its decisions of that period, would never have upheld the constitutionality of such legislation. Indeed, in 1923, the Supreme Court of the United States in *Adkins* v. *Children's Hospital* (261 U.S. 525) declared minimum wage legislation unconstitutional as depriving an individual of his freedom to take whatever job he chose, on such conditions as were acceptable to him.

In Britain, on the other hand, the trade boards were only the first of a series of steps taken by the Liberal government of the day to use the apparatus of the state to ameliorate some of the bad conditions affecting the working class.

It can be said then that the trade boards and wages councils have served as substitutes for trade unionism and collective bargaining in the British clothing industry. Indeed, that is precisely what they were supposed to do.[15]

The important question then is to see if they have inhibited the growth of trade unionism.

The Effects of Wage Regulation

As has already been stated, the immediate effect of the establishment of the Tailoring Trade Board seemed to provide an impetus to union growth. Between 1910-11 and 1913, the Amalgamated Jewish Pressers', Machinists' and Tailors Trade Union increased its membership from 950 to 4,465; the National Federation of Women Workers, from 8,000 to 11,500; the Amalgamated Union of Clothiers' Operatives, from 2,000 to 8,000; and both the Scottish and English tailors' societies also reported gains.[16]

These gains were not retained after the first World War, and from then

[15] There are a number of explanations of why the garment workers of Britain have not been able to build as powerful unions as those of the American clothing workers.

Historically, division and rivalry, between the older unions of skilled custom tailors and those of factory workers and between Gentile and Jewish unions, detracted from the strength of trade unionism. Although this rivalry was eventually overcome through amalgamations, the major clothing union, the National Union of Tailors and Garment Workers, whose jurisdiction covers all crafts and sections of the industry, today represents only a minority of the workers.

The structure and functioning of British trade unionism has made it less adaptable to the clothing industry than is the case with American unionism. The concept of the exclusive bargaining agent, the fact that the local union covers an industrial rather than a geographic area, the greater proportion of full-time officials with which to service the membership, and the closed or union shop have enabled American unions to be more successful in organizing workers in the industry.

[16] R. H. Tawney, *op. cit.*, p. 93.

on, as statutory wage regulation spread, it seemed to deter unionism. Although clothing industry trade unionism recovered from its lows of the 1920's and membership moved over the 100,000 mark again by 1940, it has remained a distinctly minority movement. In 1941, the National Union of Tailors and Garment Workers, which came into being in 1932 and included the separate unions of the earlier period, had 124,536 members. Since then membership has moved up and down within a narrow range, reaching a high of 136,408 in 1951, but dropping to 121,940 by 1955.[17] In relative terms, trade unionism has definitely declined, for membership has failed to keep pace with the rise in clothing industry employment.

American clothing industry unionism also suffered reverses in the 1920's, but the unions were able to take immediate advantage of the National Industrial Recovery Act in 1933 to rebuild their ranks and go on to become more highly organized than previously. For many years now the garment trades have been among the most highly organized in the United States, and the Bureau of Labor Statistics estimates that between 80 and 100 percent of the workers in both the men's and women's clothing industries are covered by union agreements.

Why was British clothing industry unionism adversely affected by the spread of statutory wage regulation? Since the purpose of the trade boards was the establishment of minimum rates, whereas the unions should have been setting standard rates, there shoul have been no conflict between the tw The stickiness of the trade board rat in the face of a general decline in th national wage level and widespread u employment during the 1920's an 1930's, however, often resulted in th minimum rates becoming standar rates. In fact, until the second Worl War, the Garment Union was unable negotiate a national agreement increa ing anything but the minimum rate Even today the employer associatio are reluctant to negotiate on gener increases, even though most employe are in fact paying well above the min mum rates. As a result, collective ba gaining still encompasses only minimu rates in most branches of the clothi industry.

Despite this, it would still be reaso able to have expected greater growth trade union membership, for it is th unions that actually negotiate th changes in the minimum rates. Sin there was no other way of getti worker representatives, trade uni officials had to compose the worke side of the trade boards. The boar and the present wages councils, th have really been collective bargaini instruments. This is particularly tr today, because the public members longer play the important role th once did, and therefore, whatev agreement the employers and t unions reach becomes the decision the wages councils. Consequently, t National Union of Tailors and Ga ment Workers really is the collect bargaining agent of the workers in t clothing industry.

The only problem is that the work

[17] Membership for each year as reported in the *Proceedings of the Trades Union Congress* of the subsequent year.

do not know this. Union organizers are often told, "We don't need the union, the government fixes our pay." As the union's former General Secretary stated: "Non-unionists certainly do not see the relationship between their wages and what an organized body of workers have secured by agreements afterwards made legally binding through Trade Boards, now Wages Councils."[18] Since the role of the union on the wages council is unknown to most workers, their attitude is understandable.

It begins to look like a vicious circle. Trade boards were established because of the weakness of the unions. Once wage regulation in the industry became dependent upon the boards, this served to keep the unions weak.

Possible Escape from Statutory Wage Regulation

There has always been opposition within the National Union of Tailors and Garment Workers to the practice of having the wages and conditions negotiated between the union and the employers' organizations subsequently made legally enforceable through the trade board machinery.[19] Although a substantial proportion of the membership of the union has felt this way, it has never been able to persuade a majority to be willing to drop the boards.

The Wages Councils Act of 1945 specifically empowered the Minister of Labor to abolish a wages council. Under this power, the minister abolished the Furniture Manufacturing Wages Council for Great Britain in 1947.

At that time the furniture industry was hardly better organized than is the tailoring branch of the clothing industry today. In 1947, before the abolition of statutory wage regulation, the National Union of Furnishing Trade Operatives had a membership of 55,483, but by 1951, this had risen to 74,063, an increase of one-third.[20]

Obviously, the weakness of unionization precludes a similar course of action for the entire clothing industry, but it has reached the point, in fact, where the National Union of Tailors and Garment Workers has begun to think of doing away with the Wholesale Tailoring Wages Council and of relying, instead, upon collective bargaining to determine wages, hours, and conditions. The Wages Councils Act, however, provides that an application for the abolition of a wages council must be made jointly by organizations of workers and employers in that industry.

The employers, however, fear that if the council were disbanded there would be a widening of the gap between the wages paid by the "good" employers and the rest of the clothing manufacturers, because there would no longer be a guarantee that all employers would continue to pay at least the statutory minimum rates.

The point of view of the better employers (those who pay well above the minimum rates) is understandable. They would first have the union extend

[18] Ann Loughlin, "Union Wage Claim," *Garment Worker,* official publication of the National Union of Tailors and Garment Workers, October, 1950.

[19] Conley letter of July 16, 1938.

[20] As reported in the *Proceedings of the Trades Union Congress,* 1948 and 1952.

its strength in the industry to the point where a wages council would be completely unnecessary before agreeing to its dissolution. From the union point of view, however, it is doubtful whether it will ever be able to extend its strength to that extent while the industry continues to rely upon the wages council for the determination of wages, hours, and conditions.

Nor is the union itself entirely in accord with the advisability of abolishing the wages council in tailoring. Although there are advocates of such a course of action, there are also those who fear the consequences of it. Union policy has steered a middle course between the opposing points of view.

The Furniture Manufacturing Wages Council was abolished in 1947 only after the establishment of two joint industrial councils in the industry. Joint industrial councils had been one of the recommendations of the 1917 Whitley Committee on Relations between Employers and Employed. The Whitley Committee looked toward "industrial self-government" and proposed, as one of the agencies through which this was to be achieved, the formation in well-organized industries of joint industrial councils representing employers and workpeople and meeting at regular intervals.[21]

According to the Whitley report, joint industrial councils, organized in each industry on a national, regional, and works basis, would fix wages, hours, and other working conditions and would be used for consultation on man agement and business problems.[22]

In essence, the joint industrial coun cil represents a sort of halfway hous between the completely voluntary form of wage regulation through collectiv bargaining and statutory wage regula tion. The councils vary in structure in the degree of authority with the in dustry, and in the nature and exten of their activities. The great majorit of them, however, have remained pri marily bodies for the determination o wages and working conditions and fo the discussion of subjects which nor mally fall within the range of collectiv bargaining.[23] Political and Economi Planning has suggested therefore tha where an industry reaches a degree o organization on both sides which re moves it from the sphere of statutor provisions — where, in effect, goo wages and conditions may be arrive at voluntarily — the Whitley patter be adopted.

This is precisely what the Nationa Union of Tailors and Garment Worke would like to aim at, and it has ex pressed to the employers' federation i the wholesale tailoring industry its de sire for the establishment of a join industrial council, but at the same tim has not called for the end of statuto wage regulation:

> We do not at the moment propose the di continuance of the Wages Council machi ery, but suggest that the voluntary ar statutory machinery should run side by sid

[21] Asa Briggs, "Social Background," in Flanders and Clegg, *The System of Industrial Relations in Great Britain* (Oxford: Basil Blackwell, 1954), pp. 28 and 29.

[22] Sterling D. Spero, *Labor Relations British Nationalized Industry* (New Yor New York University Press, 1955), p. 15

[23] PEP, *British Trade Unionism*, p. 47.

until such time as the industry is capable of standing on its own feet.[24]

To date, the employers, reasonably satisfied with the workings of the wages council, have not acceded to the union's proposal for the establishment of a joint industrial council.

Dangers in the Continued Reliance upon Wages Councils

The union itself continues to put great stress upon the wages council machinery — so much so that it apparently has lost the type of initiative which would permit it to escape from reliance upon it. In 1954, a year in which it was unable to negotiate any general wage increase, the union boasted of its accomplishment of getting the minimum rates raised 3*d*. an hour for men and 2*d*. for women. With most workers earning above the minimum rates, this can have made little impression upon them, as the failure of the union to gain any members would indicate.

The 1956 wage negotiations in wholesale tailoring were also indicative of the union's continued emphasis upon statutory regulation. The union had demanded increases of 5*d*. an hour in the minimum rates and 4*d*. an hour above present earnings across the board for all workers. Through the process of collective bargaining the employers were induced to offer 2*d*. for men and 1½*d*. for women, both across the board and on minimum rates, and the union to lower its claims by 1*d*. Interviews with union officers revealed that, at this juncture, some of them believed that it would be easier to reach agreement on the across-the-board figure than on the minimum one, and they considered the latter to be more important.

This attitude not only revealed a loss of initiative, but was fraught with the danger that the union would lose its appeal to even those garment workers within its ranks. Although such a union position seemed strange at a time when almost no employer in the country was paying his workers as little as prescribed by the legal minima, union leaders pointed out that they were looking to the future, when labor would no longer be in such short supply and the minima would once again be the safeguard of wage rates in the industry. Such a cautious approach obviously has little appeal to workers in the industry today. They are more concerned with a few pence more an hour in their actual pay than in the theoretical minimum rates, and if the union would be willing to bargain away a penny or two in general increases for a penny or two on the minima, it could not expect to retain the confidence of its members.

This was clearly exhibited at a meeting of 2,000 shop stewards in Leeds, the most highly unionized center of clothing production, called to hear a report on the progress of the negotiations.[25]

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[24] John E. Newton, "Towards a Joint Industrial Council," *Garment Worker,* January, 1955.

[25] The writer was present at the meeting and observed its proceedings.

As soon as the audience caught the hint of this type of timid approach, it all but hooted the chairman of the Executive Board and the General Secretary of the NUTGW off the platform.

If the garment union is to retain the goodwill of its present members and move ahead to recruit new ones, it will have to gamble more, pay less attention to the minimum rates, and focus its energies on winning pay increases fo the workers in the industry. Should i not do so but continue to rely upo statutory wage regulation, it faces th prospect that, if a time is again reache when the minima become the effectiv rates, its present membership will mel away, leaving the clothing workers mor poorly organized than ever.

Books Reviewed

Public Principles of Public Debt: A Defense and Restatement. By James M. Buchanan (Homewood, Illinois: Richard D. Irwin, 1958. Pp. xi, 223. $5.00)

In this rather small and (for its size) expensive volume, Professor Buchanan has attempted to discredit post-Keynesian public debt theory, which he says has become a "new orthodoxy" among economists, and to establish in its place a doxy of his own making. Three novel propositions constitute the framework of his "restatement." They are (1) "The primary real burden of a public debt is shifted to future generations." (2) "The analogy between public debt and private debt is fundamentally correct." (3) "The external debt and the internal debt are fundamentally equivalent." Buchanan claims that if these propositions are true, then modern post-Keynesian public debt theory must be false and should therefore be discarded.

Assuming full employment and perfect competition, Buchanan argues, in support of his first proposition, that since individuals voluntarily purchase government debt they cannot be said to have made a sacrifice in so doing. A simple portfolio readjustment leaves their net worths unchanged and thus does not inflict a loss upon them. The burden of the public debt does fall, though, on those taxpayers "who will be forced to give up resources *in the future*" when the debt is serviced or repaid. One reason Buchanan is able to arrive at this rather strange conclusion is that he does not analyze his proposition in macroeconomic terms as many of the writers in this field before him have done. In some microeconomic sense his first proposition has, doubtless, some truth to it. However, one cannot conclude, as Buchanan has, that the contrary macroeconomic proposition — which simply points out that although an individual can acquire command over resources in excess of his current income by borrowing, society cannot unless it borrows abroad — is wrong and not worthy of a place in the corpus of public debt theory.

In support of his second proposition Buchanan correctly points out that the mere issue of government debt has, like the issue of private debt, no effect on aggregate net worth. Even the payment of interest charges on the public debt leaves aggregate net worth unchanged in Buchanan's model (assuming the rate of interest on public debt equals the marginal efficiency of investment) because equivalent payments would have

been forthcoming from private sources had not the government borrowed. Buchanan argues that aggregate net worth will be increased by public activity only if the productivity of the public project exceeds that of the private projects forgone. Since private debt and public debt are similar in at least two respects, Buchanan concludes that the analogy between the two is "fundamentally correct." Again the fact that his argument is correct on its own grounds does not deny the fact that public and private debt differ in one important respect. The repayment of private debt reduces the debtor's command over current resources whereas the repayment of public debt does not reduce society's command over current resources unless the repayments go abroad. It is this difference which modern public debt theory emphasizes and Buchanan neglects.

To establish his third proposition Buchanan rightly points out that at full employment, public borrowing from either foreign or domestic sources will impose a sacrifice on society. If the rate of interest on foreign funds is less than the marginal efficiency of investment, borrowing abroad will minimize this necessary sacrifice. Because both sources of funds involve a sacrifice, Buchanan feels justified in concluding that internal and external debt are "fundamentally equivalent." This argument does not deny, of course, the proposition that when unemployed resources exist, *only* borrowing from abroad entails a social sacrifice.

It must be evident to the reader that Buchanan's theoretical reformulation of public debt theory leaves this reviewer not wholly impressed. For this reason it would perhaps be better to judge Buchanan's work by the applications he finds for it rather than by the first impression it makes. In the course of several successive chapters Buchanan takes up a number of the more important problems of public finance. Among his conclusions are that: (a) in the event of unemployment, deficits should be financed by currency issues rather than by interest-bearing debt, (b) straight currency inflation is a better way of financing war expenditures than the selling of debt to the banking system, and (c) public debt issues should not serve as a substitute for money creation but should be used for the purpose of stabilization.

Professor Buchanan's conclusions, unlike his propositions, seem rather mild and unnovel. They suggest that if public debt theory is to be drastically reformulated, more study, perhaps, is called for.

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Airline Price Policy: A Study of Domestic Airline Passenger Fares. By Paul W. Cherington. (Boston: Harvard University, Graduate School of Business Administration, Division of Research, 1958. Pp. xx, 471. $7.50)

This is the latest in a series of studies on air transportation and aviation manufacturing sponsored by the Harvard Business School. The author, formerly executive assistant to the chairman of the Civil Aeronautics Board, is now associate professor of business administration at that school.

The principal subject of this study is the actual process by which air passenger fares have been made in this country. Mail rates, freight rates, and international passenger fares are not dealt with. Most of the book consists of a detailed discussion of a series of actual price decisions, many of which were investigated by interviewing airline executives as well as by the use of private and public written records. The result is a uniquely authentic and realistic analysis which should be of value to all who are interested in price formation in general as well as to specialists in the airline field. There is also a helpful background discussion of airline markets and costs and an account of the history and present status of air fares. Another valuable feature of the study is a brief but comprehensive treatment of fare regulation by the Civil Aeronautics Board.

Four classes of price decision are considered: (1) pricing for small market segments; (2) pricing for major market segments; (3) pricing for competitive selling; and (4) pricing to increase unit revenues. Actions in the first group, exemplified by *ad hoc* promotional or excursion fares, typically produce relatively small changes in revenue; the same is true of decisions in group (3) as well as most of those in group (2). In all these cases, it is shown, pricing proposals have usually originated in the marketing sector of management and have not been subjected to any detailed revenue-cost analysis before being put into effect. Indeed, in many instances the cost factor is so small as to justify its being ignored.

More surprising is Professor Cherington's finding as to the major decisions involved in entering the air-coach market; here again, there seems to have been little advance analysis of the probable market, and the impetus for entry seems to have come from "competitive frustration" or direct competition rather than from a deliberate evaluation of the prospective profitability of coach service. Even American Airlines, exceptionally little affected by competitive pressure, devoted its advance planning to discovering a formula for coach service that would yield plane-mile revenues equivalent to those earned in first-class flights, rather than to a detailed analysis of coach potentialities as such. To the pioneering of coach service by non-scheduled carriers Professor Cherington attributes an indirect rather than a direct (competitive) role in stimulating such service by the certificated airlines.

The most important remaining area covered by the study is multi-carrier action to raise prices, which has usually taken the form of "across-the-board" flat percentage increases under circumstances of industry-wide financial pressure.

The author's conclusion that pricing "has lacked the systematic and continuing attention of top management that has, for example, been lavished on equipment" (p. 457) seems amply supported by his evidence. While there appear to be several reasons for this — some peculiar to the airlines and some common to any competitive industry faced with a generally satisfactory expansion of demand — influence in this direction may also be ascribed to the Civil Aeronautics Board, whose views

have tended to limit experimentation with differential pricing.

In order that price policy shall receive greater attention in the future, Professor Cherington suggests (p. 454) that "some carriers might wish to experiment with a price policy staff, reporting either to the chief executive officer" or to a top management committee; as he sees it, the need is not "to establish simply a market research staff or alternatively a cost analysis staff, but rather that a staff be created that will be able to perform both of these functions and in addition will be able to translate and blend the results of market and cost analysis into recommendations to top management for pricing programs" (p. 455). It is this sort of analysis, he concludes, which has been lacking in the past, and which will be necessary (1) to meet the "peaking" problems which loom so large in the ever more important non-"business" segment of the airline travel market, (2) to develop a more appropriate fare structure for short-haul and low-density air routes, and (3) to arrive at a proper relationship between fares for first-class, coach, and possibly other "grades" of airline service. Several recommendations are made for the improvement of regulation, notably the adoption of a less negative and legalistic approach to rate relationships.

On the other hand, the author does not fail to give credit where credit is due: whatever the shortcomings of carrier and board policy, he notes, they have not prevented the provision of a steadily improving product for a rapidly expanding market with a reasonably satisfactory balancing of revenues and costs. The board is duly commended for leaving pricing initiative with the carriers, where it unquestionably belongs, while at the same time blocking "a number of attempts on the part of the carriers to put into effect general [price] increases which, on hindsight proved to be unnecessary and which might even have been harmful to the development of the carriers" (p. 453).

Though Professor Cherington's major recommendations are addressed to airline managements, it is evidently not only the carriers themselves who can benefit by the adoption of his suggestions. Present and potential airline users, as well as the general public stand to benefit from the expanded service and avoidance of internal subsidization which a more rational price policy should make possible. This study represents a real contribution not only to knowledge of the pricing process but also — potentially at least — to better public service by the airlines and their regulators.

LUCILE SHEPPARD KEYES

Washington, D.C.

The American Business System. By Thomas C. Cochran (Cambridge: Harvard University Press, 1957. Pp. viii, 227. $4.75)

This book by Thomas C. Cochran, Professor of the History of the People of the United States at the University of Pennsylvania, is part of the Library of Congress Series in American Civilization. Professor Cochran had demonstrated in a long list of earlier publications his interest in the social sciences and his skill in writing about business and economic developments in America

The writing of this book, however, must have presented a fresh challenge. *The American Business System,* subtitled *A Historical Perspective, 1900-1955,* deals with a more recent period than most of Professor Cochran's earlier writings, a period so recent, indeed, that it is difficult even for a practiced historian to maintain the proper perspective in discussing it. Moreover, *The American Business System* is in a very real sense a completely new type of history. As Professor Cochran writes in his Foreword,

> The present book attempts . . . to see the history of business forms and business action in their essential relationships to technological and industrial change, and to suggest some of the interactions of the whole complex with the rest of American civilization.

More specifically, Professor Cochran wanted to provide in his book the answers to such questions as these: How did the present structure of the American business system evolve? How strong are the various elements of which it is composed? How long-lived are they likely to be? (It is interesting to observe that he carefully avoids the use of the word "capitalism" in both his title and his text because of the many overtones with which that word is burdened.)

Professor Cochran views the period 1900-55 as one of continuing adjustment to new technological developments, new corporate and financial practices, and increasing activity by government in the economic sphere. He divides the period into two portions: 1900-30, when there was still a considerable amount of separation between economic and political activity; and 1930-55, when economic and political activity were drawing much closer together. Within each of these periods the most dynamic aspects of the American business system — e.g., technology, saving and investment, the rise of the "welfare state" — are singled out for discussion. The interaction of the various aspects of the system is always made clear, however.

Despite his use of the term "the American business system," Professor Cochran does not believe that there is actually a single, uniform business system (in the conventional sense) in the United States today. He makes it abundantly clear both in his Foreword and in the body of his book that he recognizes the existence of at least three different categories of business enterprises in this country — small business enterprises, those medium-sized and big business enterprises which are relatively free of government control, and those medium-sized and big business enterprises which are subject to a high degree of government control — each with its own peculiar institutions, rate of development, and problems. Here again, moreover, interaction is repeatedly demonstrated and emphasized.

Indeed, it is this interaction of the various components and aspects of our economic system which Professor Cochran believes is responsible for the unique nature of our system. The American business system is at once unlike anything which exists anywhere else in the world and unlike anything which existed either here or abroad in the past.

Whether this unique system is stable, Professor Cochran believes, is a matter

of concern not only to the United States but to the rest of the world as well, for the American business system, he feels, is a "key protagonist" in the struggle against Communism.

By 1955 the American business system had demonstrated its ability to adapt itself to rapid changes in technology and in the social and political climate. It was an obvious success from a material point of view and for this it was respected both at home and abroad. To be victorious in the struggle against Communism, however, the American business system must meet successfully another challenge on a completely different plane. The basic need in the middle of the twentieth century is "for reanalysis and rearticulation" of values and ideals.

> If business could look at itself, analyze its values, and try to realign them with those broader ideals of the good society, it could help to make stronger and more valid America's message to an uncertain world.

Professor Cochran realizes, to be sure, that this is asking business to perform an entirely new type of function, one which it was not originally designed to perform. "But the modern corporation [by 1955] had inevitably become more than an economic institution, and its managers had more than material responsibilities."

The product of approximately thirty years of disciplined but imaginative and well-digested research in American business history, the book has relatively few footnotes and is written in a clear and readable style. It is, in addition, remarkably free of the type of bias and overgeneralization which abound in so many brief, readable books in the social sciences. The author's familiarity wit and comprehension of developments i the field of economic theory are eviden throughout and are especially notabl in his discussion of the crash of 192 and the events of the 1930's.

This book deserves to be widely cir culated and read. Concise and lucid a it is, it should be required reading fo all college students of social science an especially for those enrolled in college of commerce or business administratio For graduate students, it provides framework which will help to integrat much that they have previously rea and will also provide an excellent ex ample of the mature product of creativ scholarship. Only seasoned social scien tists, however, will be able to evaluat this book properly. For only they ca appreciate what a tour de force thi slim volume is.

BETTY G. FISHMAN

West Virginia University

The Changing of Organizational Be havior Patterns: A Case Study c Decentralization. By Paul R. Law rence (Boston: Harvard Univer sity, Graduate School of Busines Administration, Division of Re search, 1958. Pp. xiv, 237. $4.00

Anyone accepting Mooney's defin tion of organization, ". . . the form c every human association for the attain ment of a common purpose,"[1] has prob ably been struck by the fact that the are several "schools" of organizatio that would fall within this definitio The first, typified by Mooney, Urwic

[1] James D. Mooney, *Principles of Organ zation* (New York: Harper, 1947), p. 1.

and others, may be called the "classical school" of organizational theory and is concerned with the formal organization structure and arrangement of duties to achieve the over-all purpose of the organization. The other school, which can be identified either as the small group or as the group dynamics approach, is the work largely of social psychologists and sociologists such as Bales, Katz, and Likert. This school is concerned with what goes on between people in a small group, how they influence each other, how outside factors such as their boss or company policies influence them, and how they influence the large organization, usually through strikes, production, absences, and so on. The classical school is concerned with the achievement of a task, whereas the small group approach focuses on the sentiments and satisfactions of people, both individually and as members of the group. The elements considered in one school are seldom considered in the other. They seem completely divergent and unrelated. Yet they are obviously part of a whole, as any operating business, fraternity, or other organization in the "practical" world will testify.

In recent years there have been some attempts to bring these two "schools" closer together.[2] This book represents the most advanced attempt to date to investigate "the form of human association" that makes up an organization. It is a study that looks at both the formal organization and the task this structure is to achieve and also the behavior of the people in the organization. It takes the form of a case study of a medium-sized supermarket chain that decides to reorganize. The company changes from a highly centralized structure organized on a product-line basis to a decentralized operation where each store manager is responsible for all products handled in his store and where he is expected to make all decisions relevant to the operation of his store. To design the new structure was relatively simple; to be sure that the managerial group, long used to the highly centralized structure, would be able to adapt to the demands of the new structure was most difficult. When such a radical change is considered, the suggestion is sometimes made that it will be necessary to get new employees, for the old would never be able to change enough to meet the new demands. This company decided that the executive force should and would change. As this book reports, their decision was correct. The book analyzes the behavior patterns of certain key executives and comes to the conclusion that the way in which an executive's behavior pattern changes and the speed with which it changes is a function of his self concept, i.e. the way he perceives himself.

As a case study of only one firm, the book does not have a broad enough base to establish as generally valid the relationships found in this case. However, it does provide some fascinating insights into behavior of people involved in an organizational change. More importantly, it presents a well thought out research method which

[2] See for example, Chris Argyris, *Personality and Organization*, (New York: Harper, 1957); and James G. March and Herbert A. Simon, *Organizations* (New York: Wiley, 1958).

should prove an invaluable tool for anyone interested in doing research on large, functioning organizations. Principal among these research tools is a method of analyzing interaction patterns in this type of situation. Analysis of these patterns was found to reveal the same information that had been gained from an analysis of activities and conversations. It opens the possibility of using a relatively simple and quantifiable means of getting valuable information which was previously available only through much more difficult and subjective means.

The book, in dealing with a change from a highly centralized to a decentralized organization, touches on a move that many firms are either making or considering today. For them it should give some useful insights into what they can expect in the way of results and difficulties and an example of how one such change was actually conducted. For those interested in research on organizational matters, the book provides an excellent description of what should prove to be a valuable research methodology.

Joseph A. Litterer
University of Illinois

Industrial Relations in Postwar Japan. By Solomon B. Levine (Urbana: University of Illinois Press, 1958. Pp. xiii, 200. $4.25)

Professor Levine, in this interesting monograph, presents an important facet of Japanese economic history: the development of labor market institutions. Prior to World War II, though there were numerous organizational efforts, the Japanese labor movement was tiny and impotent. Collective bargaining scarcely existed. What little there was of worker organization was swept away by the wartime government and replaced by a labor front on the Nazi style. But with the defeat of Japan and the encouragement to unionism that marked the initial policy of the American occupation authorities, the dam broke. By early 1949, 7 million Japanese workers had joined trade unions, probably the most rapid growth ever achieved by a labor movement. Within a decade after the conclusion of hostilities, an elaborate legislative code to govern labor relations had been established, collective bargaining was common, and the trade unions were playing a major role in the political life of the country.

Though the Japanese labor movement attempted consciously to borrow from the West, it inevitably developed its own institutional peculiarities. Professor Levine and other scholars have aptly characterized it as enterprise unionism. The basic unit of organization is not, as in the West, the craft or the industry, but rather the individual firm. A great many important consequences flow from this. The national union tends to be weak, more a loose federation of autonomous locals than the closely knit body we have in the United States. The unit of collective bargaining is the enterprise, leaving little for the national union to do in arranging conditions of employment. National union leaders tend to devote most of their energies to politics, and political differences among them result in fragmentation of the labor move-

ment. The subject matter of collective bargaining is both influenced by and helps confirm union structure, security of employment tenure being the major focus of worker and union interest.

The description of these and other aspects of postwar industrial relations in Japan is exceedingly well done. However, the analysis does not penetrate quite as deeply as one might have wished. Among the factors which Professor Levine and other Western writers on Japanese labor have adduced in explanation of the observed peculiarities are Japanese industrial structure, the methods of recruiting employees, the high degree of paternalism practiced by the employer (a reflection of the traditional Japanese family), and the separation of the labor force into distinct permanent and temporary groups. But what the Japanese expert fails to take into explicit account is that similar economic and social phenomena have existed in other countries. The coexistence of large, modern, technologically advanced enterprises with backward workshops is by no means unique to Japan. Nor is employer paternalism, a practice which has prevailed at some stage of development in every country, even the United States. As for concern with job security, this has always tended to be highly correlated with the extent of structural unemployment. Japan is not the only country in which the discharge of a permanent employee is a major operation. We are still left with the question, Why are Japanese labor relations as different as they are usually made out to be? I might add, parenthetically, that I am not as convinced as Professor Levine that Japan is really so very unusual.

From the point of view of the economist, it would have been helpful if more attention had been paid to economic issues. The wage-price problem is scarcely touched upon, though inflation has been a major problem in postwar Japan. The relation of collective bargaining to international trade is not considered. One also wonders about the viability of enterprise unit bargaining in the case of products competing nationally and internationally. In the United States, unions have been almost forced to widen the scope of the bargaining unit to keep individual firms from gaining undue competitive advantages.

But these are criticisms of what Professor Levine has not done, rather than of what he has done. His goal was more modest than the one I have suggested, and there can be no question of the high quality of performance in the task he set for himself. *Industrial Relations in Postwar Japan* is likely to remain a standard work, within its field, for many years to come. This reviewer would hope to see, before too long, a more comprehensive treatment of Japanese labor from the pen of Professor Levine. Certainly, there is no one now interested in the subject more competent to produce it.

Walter Galenson
University of California (Berkeley)

Work in the Lives of Married Women. By the National Manpower Council. (New York: Columbia University Press, 1958. Pp. xii, 220. $4.75)

That *"The new pattern of work outside the home for wives and mothers has had, by and large, desirable social and economic consequences"* is one of the major conclusions of the latest volume issued by the National Manpower Council. *Work in the Lives of Married Women,* its seventh publication, embodies the proceedings of a conference on the subject held in the fall of 1957.

The study papers, general addresses, and reports of conference sessions included in the volume present a wealth of experience, opinion, and research findings. The variety and detail of the material make difficult an over-all evaluation, in part because the reporting is almost too complete.

Especially noteworthy are the study paper on the use of supplementary income earned by wives in middle-income families and the one bringing together what little is known regarding the effects upon children of their mother's outside employment. The former paper cites census data that suggest the wife's salary helps to bring the family income into middle and higher earnings brackets but that the increment is used for consumption rather than property assets. Whether the added expenditure is for consumers' durables, for cultural advantages for the children, or for other purposes depends on the stage of the family life cycle. That the wife's working has been an economic gain to the family is undoubted; the noneconomic aspects are harder to assess.

In the second paper mentioned, a survey of existing studies shows that "w
do not know whether it is the mother'
working which is responsible for suc
problems as do appear, or whether bot
the problems and the mother's workin
are reflections of some other, deep-lyin
home factor." Psychological studies als
indicate that no definite conclusion ca
be stated as to net benefit or disad
vantage for children of the mother'
employment, that "the necessary fact
finding has just begun." The confer
ence participants agreed that the qualit
of the mother-child relationship is mor
important than the amount of tim
spent together, assuming adequate chil
care in the mother's absence.

As an organization concerned wit
the quality of the nation's human re
sources, the National Manpower Coun
cil clearly has a concern with th
development and utilization of woman
power. Women constitute one-third o
the entire labor supply, and the majo
part of the growth in the labor forc
since World War II has been due t
increased employment of women, par
ticularly married women in the ag
groups beyond 35 years, whose childre
are in school or grown. Failure to mak
appropriate use of the abilities of s
large a group would clearly be a wast
of human talents of significant pro
portions.

That such a failure has been th
tendency appears from the papers an
the conference sessions on this subjec
The losses to society arising from i
effective utilization of women's capac

ties occur for a complexity of reasons. On the side of industry, traditional employer attitudes toward women workers, older persons, jobs suitable for women, and advancement for women are factors. In addition, the pattern of women's work (usually involving an interruption for a family role), attitudes of the women themselves toward the job, and the absence of suitable training and guidance are held to play a part. It is pointed out that the exigencies of a war probably led more immediately to improved utilization of women workers than all the efforts of those interested in increasing women's opportunities or in raising the economy's productivity.

The discussion of training and guidance of women entering or re-entering the labor market raises the question of a general education versus training for specific skills for women, which this conference does not solve. It makes a number of suggestions, however, for improving the utilization of women and points out that in the future this will probably involve more successful use on a wider scale of older women and of part-time workers.

The implications of what the council has called "the revolution in women's employment" and the manifold views on the issues it raises, so well covered in this book, will be of considerable interest to workers in fields of guidance, personnel work, and social welfare. The fact of the "revolution" also might well be brought to the attention of the general public. There is need for understanding of its significance "as an essential part of the story of the continuous growth in real income, as a major factor in improved living standards, as an influence for richer and fuller lives for America's children" and as representing "the expansion of individual freedom of choice."

JANET M. HOOKS

Champaign, Illinois

Investment Banking Functions. By Merwin H. Waterman (Ann Arbor: University of Michigan, Bureau of Business Research, 1958. Pp. ix, 190. $4.00)

In writing this book Professor Waterman had the financial help of the Joint Committee on Education Representing the American Securities Business, which also assisted him in his efforts to gather data. Much of the information is based on the briefs of counsel of both sides in the antitrust case against seventeen investment banking firms. The case took six years and ended with Judge Harold R. Medina's final opinion in favor of the defendants.

The reviewer joins the author in finding investment banking in the United States a highly important section of the economy which is, as a whole, performing its functions with great efficiency, economy, and high standards of ethics, especially if compared with practices in other countries. This was not necessarily true before the great reforms of the Banking Act of

1933, the Securities Act of 1933, and the Securities Exchange Act of 1934.

The advertising slogan once used by a cigarette firm, "They're good because they've got to be good," holds true also of investment bankers and there may be reasons for the SEC and/or the Congress to watch institutional changes and certain fields not covered by law, especially in the over-the-counter market.

The book begins with a somewhat too sketchy discussion of the functions of the capital market and of primar and secondary securities markets. (In cidentally, only private securities ar discussed throughout the book, wit municipal and federal securities left fo future study.) There follows a sho historical part and then the descrip tion and evaluation of current practice In the short space of 186 pages th author has done a very fine job in much neglected field.

Robert M. Weidenhammer
University of Munich

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BUREAU OF ECONOMIC AND BUSINESS RESEARCH

The Bureau of Economic and Business Research, established in 1921, is the research department of the College of Commerce and Business Administration. Economic and business information, including material on tested business practices, is compiled by the Bureau and made available to Illinois businessmen and others interested in business and related problems. Although the major part of its work deals especially with Illinois, the Bureau also engages in general economic research.

Fields in which research is carried on include: accounting; marketing; retail and wholesale trade; resources and industries; transportation, utilities, and communications; banking and private finance; public finance, governmental regulation, and public policy; international trade and finance; labor, public relations, and welfare; and general economic developments.

The results of Bureau investigations are published in the form of research bulletins, business studies, and miscellaneous special bulletins. The following titles illustrate the scope of the Bureau's publications.

Bulletin 81, *British and American Manufacturing Productivity,* by Marvin Frankel. ($1.50)

Bulletin 82, *The Structure and Policy of Electronic Communications,* by Dallas W. Smythe. ($1.50)

Bulletin 83, *The Effectiveness of Pharmaceutical Promotion,* by Robert Ferber and Hugh G. Wales. ($2.00)

Bulletin 84, *Experience Rating in Unemployment Compensation,* by Clinton Spivey. ($1.50)

Business Study 10, *The Demand for Aluminum: A Case Study in Long-Range Forecasting,* by James E. Rosenzweig. ($1.00)

The Railroad Shippers' Forecasts, by Robert Ferber. ($1.00)

Determinants of Capital Expenditures: An Interview Study, by Robert Eisner. ($1.50)

Employers' Forecasts of Manpower Requirements: A Case Study, by Robert Ferber. ($1.50)

Changing Structure and Strategy in Marketing. Robert V. Mitchell, *Editor.* ($1.50)

The Bureau also publishes the *Illinois Business Review,* which presents a monthly summary of business conditions for Illinois.